

**REPUBLIC OF PALAU**

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

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**YEAR ENDED SEPTEMBER 30, 2020**

**REPUBLIC OF PALAU**

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

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**YEAR ENDED SEPTEMBER 30, 2020**

**REPUBLIC OF PALAU**

FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2020

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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, 2020, 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 37%, 6%, and 44%, 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, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis-of-Matter**

### *Uncertainty*

As discussed in Note 13H the Republic of Palau Civil Service Pension Trust Fund's actuarial valuation has determined that the Fund has a net pension liability of \$308,480,463 which would cause the Fund's fiduciary net position to become negative in 2024. 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.

Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

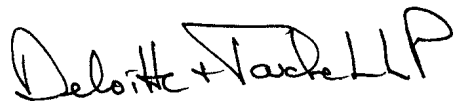
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 93 and 94, the Schedule of the Proportionate Share of the Net Pension Liability, on page 95, and the Schedule of Pension Contributions, on page 96, 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 April 24, 2023 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 + Tatchell LLP". The signature is written in a cursive, stylized font.

April 24, 2023

## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2020

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, 2020. We encourage readers to consider the information presented here in conjunction with the Republic's basic financial statements, which follow this section. Fiscal year 2019 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 \$256.6 million (net position), decreased by \$42.3 million (or down 14.1%) from a net position of \$298.9 million in the prior year. Of this amount, \$129.8 million represents the Republic's investment in capital assets; \$296.9 million represents amounts restricted for various purposes, with the remaining deficiency of \$170.1 million to be funded from future governmental activities.
- During the current fiscal year, the Republic's expenses for governmental activities were \$169.9 million and were funded in part by \$72.8 million in program revenues and \$44.6 million in taxes and other general revenues. General revenues decreased by \$2.5 million (or down 5.3%) from \$47.1 million in the prior year to \$44.6 million, which was attributable primarily to the decrease in general revenues of \$2.8 million. Expenses increased by \$39.2 million (or 20%) from \$130.7 million in the prior year to \$169.9 million, which was attributable primarily to the increase in general government expenses due to the COVID-19 pandemic.
- The Compact Section 211(f) Trust Fund generated a net loss of \$6.3 million in the current fiscal year offset by an appropriation of \$15 million representing the transfer out to the General Fund as budgetary support, decreasing the Republic's trust fund balance to \$280 million from \$286.4 million in the prior year (down 3.9%).
- For the current fiscal year, the General fund revenues (and other financing sources) of \$131.4 million rose over general fund expenditures (and other financing uses) of \$114.4 million. General fund revenues (and other financing sources) went up \$43.4 million (or 49.3%) from prior year primarily due to loan proceeds received in 2020. General Fund appropriations (and other financing uses) also went up \$23.3 million (or 25.5%) 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, 2020

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

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

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

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

### **Fund Financial Statements**

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

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

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

Governmental funds – These are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Republic's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Republic's programs.

## **REPUBLIC OF PALAU**

### Management's Discussion and Analysis Year Ended September 30, 2020

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.

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 \$256.6 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 \$101.8 million while its current liabilities were \$32.1 million. Restricted net position represents resources that are subject to external constraints.

The table below summarizes the Republic's net position at the close of the current year compared with prior year.

**REPUBLIC OF PALAU**

Management's Discussion and Analysis  
Year Ended September 30, 2020

Net Position As of September 30			
	Governmental Activities <u>2020</u>	Governmental Activities <u>2019</u>	Total Percentage Change <u>2020-2019</u>
Current and other assets	\$437,967,408	\$415,728,315	5.3%
Capital assets	<u>131,880,093</u>	<u>121,847,460</u>	8.2%
Total assets	<u>569,847,501</u>	<u>537,575,775</u>	6.0%
Deferred outflows of resources	<u>59,810,076</u>	<u>37,094,511</u>	61.2%
Long-term debt outstanding	115,912,126	63,311,426	83.1%
Other liabilities	<u>220,905,850</u>	<u>176,910,050</u>	24.9%
Total liabilities	<u>336,817,976</u>	<u>240,221,476</u>	40.2%
Deferred inflows of resources	<u>36,192,995</u>	<u>35,529,272</u>	1.9%
Net position:			
Net investment in capital assets	129,822,915	118,190,296	9.8%
Restricted	296,908,957	306,011,790	-3.0%
Unrestricted	<u>(170,085,266)</u>	<u>(125,282,548)</u>	35.8%
Total net position	\$ <u>256,646,606</u>	\$ <u>298,919,538</u>	-14.1%

At the end of the current fiscal year, the Republic's unrestricted net position deficiency was \$170.1 million, an increase from the prior year amount by \$44.8 million (or 35.8%). 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 \$42.3 million, representing a decrease of 14.1% from the prior year's amount of \$298.9 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.

**REPUBLIC OF PALAU**

Management's Discussion and Analysis  
Year Ended September 30, 2020

Changes in Net Position  
For the Years Ended September 30

	Governmental Activities <u>2020</u>	Governmental Activities <u>2019</u>	Total Percentage Change <u>2020-2019</u>
Revenues:			
Program revenues:			
Charges for services	\$ 19,127,810	\$ 24,408,430	-21.6%
Operating grants and contributions	40,886,929	35,300,212	15.8%
Capital grants and contributions	<u>12,803,324</u>	<u>206,408</u>	6102.9%
	<u>72,818,063</u>	<u>59,915,050</u>	21.5%
General revenues:			
Taxes	42,597,532	45,370,124	-6.1%
Other general revenues	<u>2,046,643</u>	<u>1,772,563</u>	15.5%
	<u>44,644,175</u>	<u>47,142,687</u>	-5.3%
Total revenues	<u>117,462,238</u>	<u>107,057,737</u>	9.7%
Expenses:			
General government	71,136,421	42,407,746	67.1%
Education	19,733,226	19,104,915	3.3%
Health and welfare	28,941,800	20,191,616	43.3%
Public safety	12,235,076	9,199,088	33.0%
Cultural affairs and recreation	3,090,381	5,696,015	-45.7%
Transportation and commerce	16,671,986	23,387,323	-28.7%
State government appropriations	16,754,932	9,010,355	86.0%
Depreciation - unallocated	790,361	814,055	-2.9%
Interest	<u>573,755</u>	<u>897,623</u>	-36.1%
Total expense	<u>169,927,938</u>	<u>130,708,736</u>	30.0%
Contributions from permanent funds	<u>10,192,768</u>	<u>5,737,570</u>	77.6%
Change in net position	<u>(42,272,932)</u>	<u>(17,913,429)</u>	136.0%
Net position at beginning of year	<u>298,919,538</u>	<u>316,832,967</u>	-5.7%
Net position, end of year	\$ <u>256,646,606</u>	\$ <u>298,919,538</u>	-14.1%

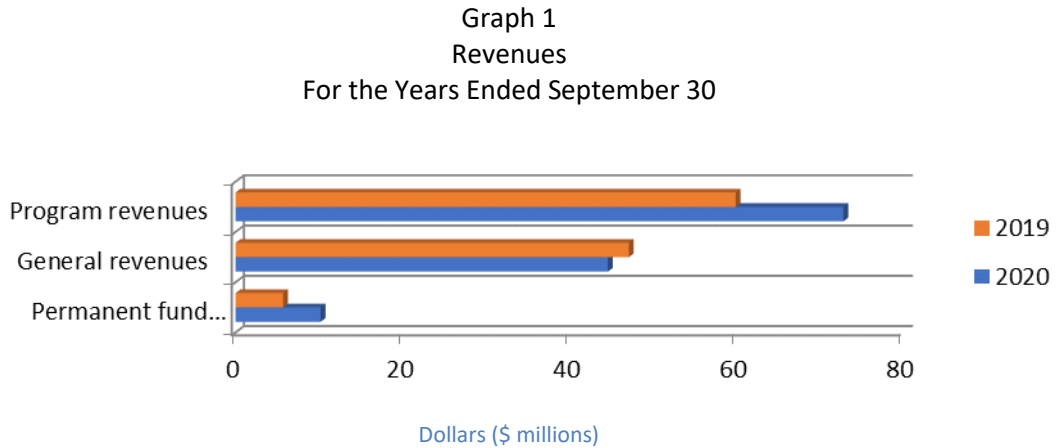
**REPUBLIC OF PALAU**

Management’s Discussion and Analysis  
Year Ended September 30, 2020

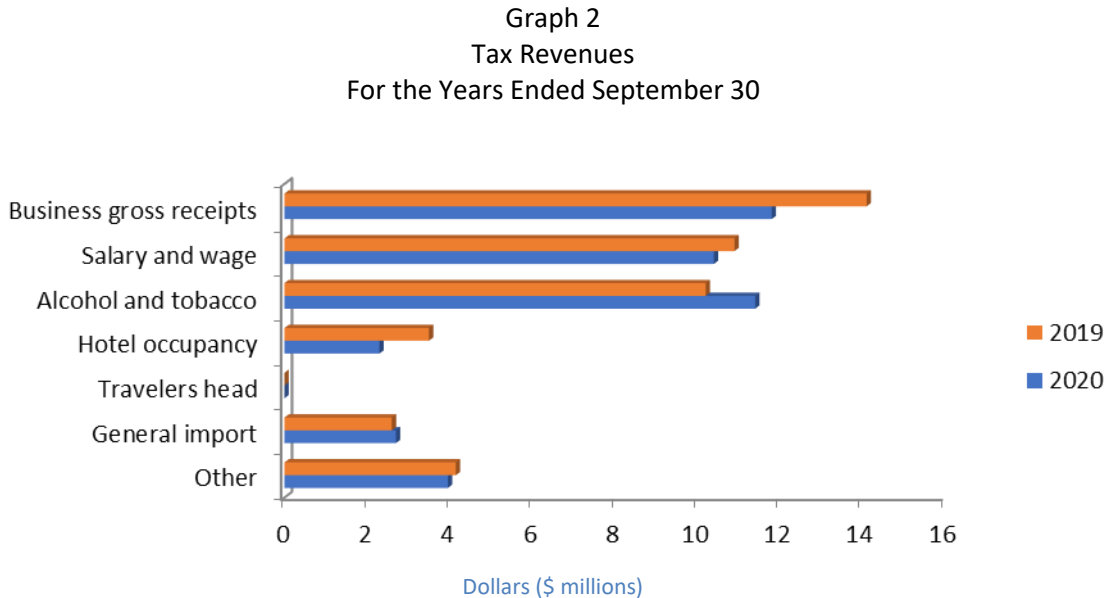
Key elements of the increase in net position are as follows:

- The Compact Section 211(f) Trust Fund contributions of \$10.2 million increased by \$4.5 million (or 77.6%) from prior fiscal year when the trust fund earnings contributed \$5.7 million. Overall revenues increased in the current year by \$10.4 million (or 9.7%). Concurrently total expenditures increased by \$39.2 million (or 30%) 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:



A significant portion of the Republic’s general revenues involves tax revenue collections. At \$42.6 million in the current year, tax revenues were lower than the \$45.4 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:



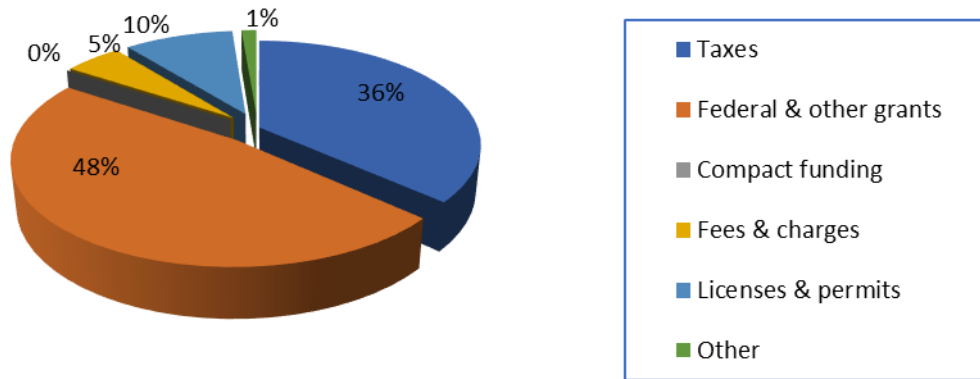
**REPUBLIC OF PALAU**

Management’s Discussion and Analysis  
Year Ended September 30, 2020

- Cost of governmental activities increased in the current year by \$39.2 million (or 30%) compared with prior year. General government increased by \$28.7 million (or 67.7%) compared with prior year. Cost of Education increased by \$0.6 million ( 3.3%) in the current year as well as the cost of Health by \$8.8 million ( 43.3%) compared with prior year. Cost of Transportation and commerce decreased by \$6.7 million (or down 28.7%) from prior.

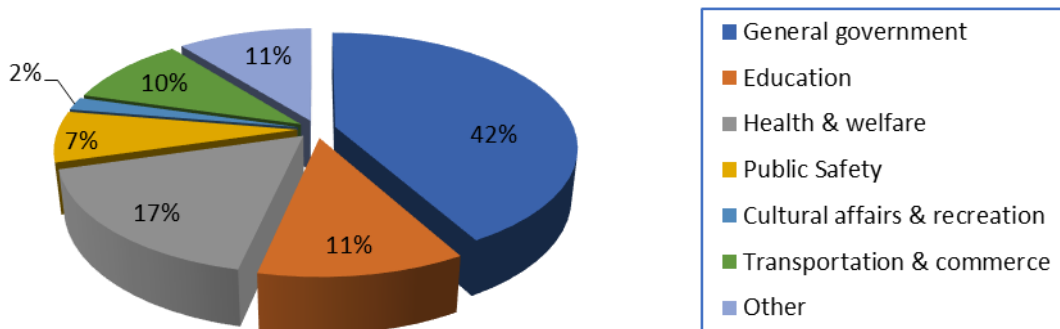
Graphs 3 and 4 below indicate the major component of revenues and cost of governmental activities.

Graph 3  
Revenue Sources  
For the Year Ended September 30, 2020



Local taxes and federal and other grants are the major sources of revenue for the Republic, which comprise over 95% of the total revenues for the current year. The remaining 5% is primarily comprised of various fees and service charges.

Graph 4  
Cost of Governmental Activities  
For the Year Ended September 30, 2020



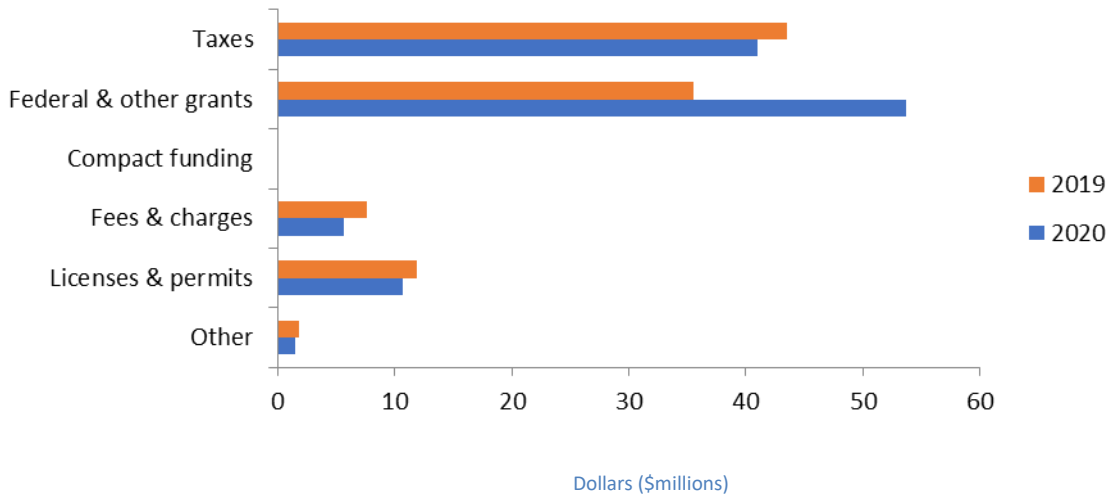
**REPUBLIC OF PALAU**

Management’s Discussion and Analysis  
Year Ended September 30, 2020

Other expenses that make up a portion of the costs of governmental activities include State government appropriations (\$16.8 million), unallocated depreciation expense (\$0.8 million), and interest expense (\$0.6 million).

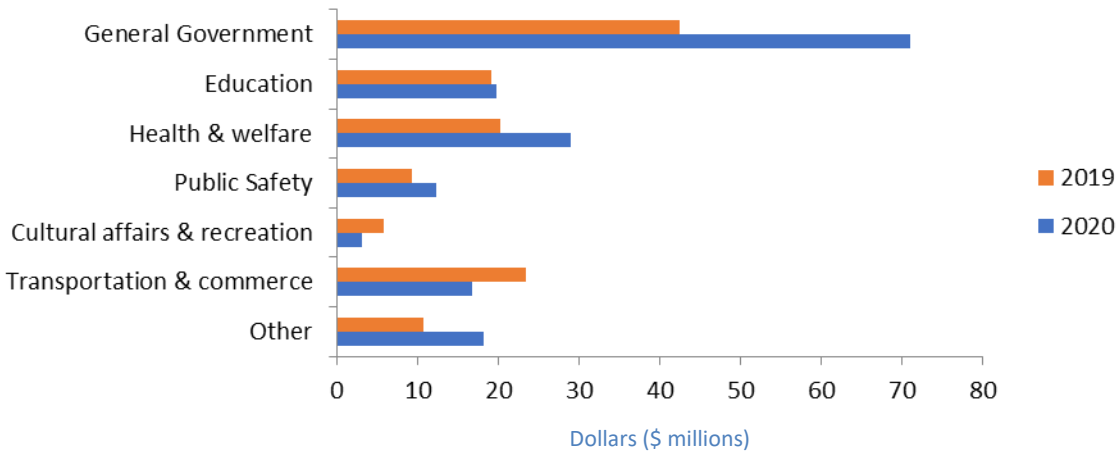
Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2020 and 2019.

Graph 5  
Revenue sources  
For the Years Ended September 30



Graph 6

Cost of Governmental Activities  
For the Years Ended September 30



## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2020

Other expenses in the current year include State government appropriations of \$16.8 million, which increased by \$7.7 million from the prior year. Overall cost of governmental activities increased by \$39.2 million (or 30%) compared to prior fiscal year.

General revenues decreased by \$2.5 million (or down 5.3%) from the previous fiscal year. The decrease was primarily due to the decrease of general revenue collections of \$2.8 million (or down 6.1%) compared with prior year.

#### **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 \$407.4 million, which represents an increase of \$13 million (or 3.3%) in comparison with the prior year. Of this total combined fund balance, \$336.6 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 and \$12.4 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 \$48.9 million.

The General Fund is the chief operating fund of the Republic. At the end of the current fiscal year, the unassigned fund balance of the General fund was \$49.2 million. Total fund balance was \$110.7 million compared with a total fund balance of \$93.7 million at the end of the prior fiscal year.

The Compact Section 211(f) Trust Fund has a total fund balance of \$280 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 \$8.6 million (or down 3.9%), which reflects a transfer of \$15 million to the Republic's General Fund and a net increase in the value of trust fund investments of \$10.2 million.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the course of the fiscal year, budget revisions of \$10.5 million were made by management and elected officials of the Republic to the General Fund budget. Revenues collected (including other financing sources) of \$108.8 million were slightly lower than budgeted amounts of \$117.2 million due primarily to a decrease in local revenue collections. In addition, charges to appropriations (including other financing uses) of \$98.2 million were lower than budgeted amounts of \$117.9 million due primarily to expenditures associated with the executive branch and other appropriations of \$44.8 million and \$15.8 million, respectively, which were lower than budgeted amounts of \$48.9 million and \$31.1 million, respectively.



**REPUBLIC OF PALAU**

Management's Discussion and Analysis  
Year Ended September 30, 2020

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The Republic's investment in capital assets for its governmental activities as of September 30, 2020 amounted to \$490.6 million (including \$12.9 million of land and construction in progress), net of accumulated depreciation of \$371.6 million, leaving a net book value of \$131.8 million. This represents an increase of \$10 million from the amount of \$121.8 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>2020</u>	Governmental Activities <u>2019</u>	Total Percentage Change <u>2020-2019</u>
Buildings and other improvements	\$ 68,814,038	\$ 75,357,780	-8.7%
Machinery and equipment	28,143,275	18,156,448	55.0%
Vehicles	1,845,329	1,624,588	13.6%
Infrastructure	20,157,153	17,885,878	12.7%
Land	3,899,403	3,899,403	0.0%
Construction in progress	<u>9,020,895</u>	<u>4,923,361</u>	83.2%
<b>Total</b>	<b>\$ <u>131,880,093</u></b>	<b>\$ <u>121,847,458</u></b>	<b>8.2%</b>

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	\$ 0.12	\$ 0.12
Aimeliik-Mongami Road	\$ 0.22	\$ 0.22
Airai Road	\$ 0.26	\$ 0.26
Koror-Airai Road	\$ 5.72	\$ 5.72
Melekeok Road	\$ 0.29	\$ 0.29
Ngaraard Road	\$ 0.57	\$ 0.57
Ngaremlengui Road	\$ 0.47	\$ 0.47
Ngatpang Road	\$ 0.14	\$ 0.14
Ngchesar Road	\$ 0.24	\$ 0.24
Ngiwal Road	\$ 0.66	\$ 0.66

## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2020

- Acquisition of the following machinery and equipment:

<u>Machinery &amp; Equipment</u>	<u>Current Year Additions (\$ millions)</u>
Topcon Laser Scanner & Program	\$ 0.08
Chemistry Analyzer	\$ 0.14
Film Array Torch	\$ 0.05
RT PCR Machine	\$ 0.07
Patrol Boat, PSS H.I. Remeliik II	\$ 12.1
Sea Boat, PSS H.I. Remeliik II	\$ 0.05
Airport Runway Sweeper	\$ 0.20
Boat with accessories	\$ 0.09

- 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	\$ 0.81	\$ 2.22
Babeldaob Cross-over Road	\$ 0.00	\$ 0.14
One Stop Shop Ph1	\$ 0.11	\$ 0.76
Judiciary Generator Project	\$ 0.12	\$ 0.29
Capitol Standby Generator	\$ 0.06	\$ 0.50
Capitol Complex Conference Center	\$ 0.00	\$ 0.14
MOJ Surveillance Management System	\$ 0.42	\$ 1.00
MOF Financial Management System	\$ 1.60	\$ 2.68
Angaur Dock Project (COFA)	\$ 1.30	\$ 1.30

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

### **Long-term Debt**

The Republic has entered into ten separate loans with the Mega International Commercial Bank and the Asian Development Bank (ADB) (See table below). Long-term debt obligations increased by \$52.6 million (or 83.1%) in the current fiscal year.

## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2020

#### Outstanding Long-term Debt September 30

	Governmental Activities <u>2020</u>	Governmental Activities <u>2019</u>	Total Percentage Change <u>2020-2019</u>
Republic of Palau Capitol Building	\$ -	\$ 1,142,843	-100.0%
Palau International Airport Repaving	2,057,178	2,514,320	-18.2%
Agriculture & Aquaculture Projects-NDBP	4,428,572	4,714,286	-6.1%
Palau Housing Projects-PHA	4,571,429	4,857,143	-5.9%
Water Sector Improvement (Loan #2691)	7,584,864	8,577,585	-11.6%
Water Sector Improvement (Loan # 2692)	2,756,072	3,376,173	-18.4%
Koror-Airai Sanitation Loan (Loan #3060)	19,553,861	17,255,954	13.3%
Koror-Airai Sanitation Loan SDR (Loan #3061)	1,716,000	1,623,076	5.7%
North Pacific Regional Connectivity Inv. Loan (Loan # 3346)	13,341,068	12,764,697	4.5%
North Pacific Regional Connectivity Inv. Loan (Loan # 3347)	6,903,081	6,485,349	6.4%
Housing Loan (Loan # 025-107001)	15,000,000	-	100.0%
Disaster Resilience Program (Loan # 3725)	15,000,000	-	100.0%
Health Expenditure & Livelihood Support (Loan # 3955)	20,000,000	-	100.0%
ICDF Women & Youth Entrepreneurs	<u>3,000,000</u>	<u>-</u>	100.0%
Total	<u>\$ 115,912,126</u>	<u>\$ 63,311,426</u>	83.1%

Additional information on the Republic's long-term debt can be found in note 7 to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

In Fiscal Year 2020, Palau's economy contracted by 9.7 percent reflecting the severe impact of the COVID-19 pandemic on visitor arrivals. The construction sector remained resilient with progress on large infrastructure projects such as the airport extension and robust housing construction. A coordinated government and donor loan financing response resulted in the implementation of a \$20 million loan under the Coronavirus One Stop Shop Relief Act (CROSS Act) to provide mitigating programs including an unemployment program, a temporary job program, relief to the private sector through a loan program disbursed by the National Development Bank of Palau (NDBP), and a lifeline utility subsidy program for the low income households. Additionally, Palauan citizens received unemployment benefits under the US Coronavirus Aid, Relief, and Economic Security Act (CARES Act), with up to \$19 million available. With these Covid-19 mitigation programs including unemployment benefits, household incomes rose by 2 percent compared with Fiscal Year 2019.

In Fiscal Year 2019 visitor arrivals was below trend level of 89,726 visitors. This fell to 41,674 in Fiscal Year 2020 and is projected to disappear throughout Fiscal Year 2021 with a projected level of 1,200 visitors for the year. While the projection for the Fiscal Year 2021 is conservative, it is possible that once Palau achieves full vaccinated status, a "sealed corridor" might be created with Taiwan ROC that would accelerate the revival of Palau's tourism industry. For Fiscal Year 2022, visitor number is projected to reach 45 percent of the pre-COVID-19 projected Fiscal Year 2020 level, 90 percent in Fiscal Year 2023, and full recovery in Fiscal Year 2024. Thereafter visitor arrivals are projected based on achieving a room occupancy of 55 percent and a long-run growth of 2 percent.

## **REPUBLIC OF PALAU**

### Management's Discussion and Analysis Year Ended September 30, 2020

Revenue effort was strong in Fiscal Year 2020 despite the economic slowdown. Overall revenue remained relatively the same compared with Fiscal Year 2019, with 13 percent reduction in taxes being offset by a significant increase in grants. In Fiscal Year 2019, taxes accounted for 52 percent of total revenue compared to 45 percent in Fiscal Year 2020. Payrolls also fell by 3 percent during the year, while taxes on wages and imports grew despite the downturn in the economy. Import taxes grew by 5 percent and reflecting increased consumer demand and growth in the construction industry. Revenues from the Gross Revenue Tax (GRT) fell by 12 percent while the hotel room occupancy tax and taxes on departing visitors (PPEF – Pristine Paradise Environmental Fee) declined to zero.

Expenditure grew by 22 percent in Fiscal Year 2020 as more financing was required to fund the various mitigation efforts in response to the COVID-19 pandemic. However, large increases in expenditure were also incurred in subsidies to SOE's and funding for housing development.

Real GDP is projected to contract by 17.1 percent in Fiscal Year 2021, before rebounding by 9.4 percent in Fiscal Year 2022 and 18.3 percent in Fiscal Year 2023 alongside a slow recovery in tourist arrivals. Despite an estimated 92 percent drop in tourist arrivals in Fiscal Year 2021, a modest recovery started at the end of Fiscal Year 2021, and tourist arrivals are projected to reach the pre-pandemic level of Fiscal Year 2019 in Fiscal Year 2024. With much uncertainty in the tourism sector, output is expected to remain on a lower trajectory in the medium term.

Palau is aware of increasing demands for the limited government resources and despite prioritizing, reallocation of funds and other cost cutting measures these efforts are simply not sufficient to bridge between revenue collection and budgetary requirements. The government continues to seek other revenue sources to meet these anticipated costs. New measures have been introduced to try and raise additional revenue, i.e. tax reforms, room tax and visitor's departure tax increases, eliminating import duty exemptions, moving to CIF (cost, insurance, and freight) valuation, creation of a digital residency office, and adopting a value-added tax (VAT) called Palau Goods and Services Tax (PGST); which has been enacted and will take effect on January 1st, 2023.

Looking beyond Fiscal Year 2020, the financial burden imposed by the COVID-19 pandemic requires the government to set in place a firm foundation to prudently manage fiscal policy to achieve a sound fiscal stance and to provide an effective enabling environment for the private sector to lead economic recovery and to achieve sustained growth of Palau's economy. With the assistance from ADB through the RISES (Recovery through Improved Systems and Expenditure Support) program, the administration is progressing on the establishment of a fiscal responsibility framework, the adoption of a modernized and effective tax regime (PGST), the reform of the Social Security System, a framework to regulate private public partnerships and corporations law reform to adopt international best practices. These elements are designed to guide and assist Palau through the pandemic and establish a sound fiscal framework during the recovery.

### **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, 2020

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 70,682,043	\$ 29,605,958
Investments	7,775,436	4,434,598
Receivables, net of allowance for uncollectibles	16,090,715	8,355,984
Inventories	-	8,445,152
Due from primary government	-	780,917
Due from component units	2,338,717	-
Other current assets	232,839	803,607
Restricted assets:		
Cash and cash equivalents	4,685,571	-
Time certificates of deposit	-	-
Total current assets	101,805,321	52,426,216
Noncurrent assets:		
Investments	-	3,167,565
Receivables	-	30,478,648
Capital assets:		
Nondepreciable capital assets	12,920,298	24,351,602
Capital assets, net of accumulated depreciation	118,959,795	86,576,563
Indefeasible right of use	-	5,888,773
Foreclosed real estate	-	347,188
Due from component units	48,989,501	-
Right to Use	5,945,675	-
Other noncurrent assets	1,191,965	112,702
Restricted assets:		
Cash and cash equivalents	-	5,097,651
Investments	280,034,946	5,977,405
Total noncurrent assets	468,042,180	161,998,097
Total assets	569,847,501	214,424,313
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows from pensions	59,810,076	19,692,689
	\$ 629,657,577	\$ 234,117,002
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ 4,421,512	\$ 3,704,613
Current portion of compensated absences payable	2,308,196	-
Accounts payable	7,390,124	5,247,123
Contracts payable	3,987,216	-
Due to State governments	1,104,542	-
Due to primary government	-	2,200,393
Due to fiduciary funds	-	337,251
Accrued payroll and others	3,783,176	2,791,188
Unearned revenue	7,684,818	2,711,659
Other liabilities	642,885	1,814,379
Income tax refunds	818,365	-
Total current liabilities	32,140,834	18,806,606
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	111,490,614	18,377,467
Compensated absences payable, net of current portion	2,972,595	-
Net pension liability	190,213,933	56,162,255
Due to primary government	-	50,681,827
Due to fiduciary funds	-	1,738,071
Total noncurrent liabilities	304,677,142	126,959,620
Total liabilities	336,817,976	145,766,226
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflows from pensions	36,192,995	9,780,178
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets:	129,822,915	55,925,054
Restricted for:		
Future operations	280,034,946	-
Endowment	-	6,037,928
Debt service	-	8,582,971
Compact related	4,360,648	-
Other purposes	12,513,363	26,412,560
Unrestricted	(170,085,266)	(18,387,915)
Total net position	256,646,606	78,570,598
	\$ 629,657,577	\$ 234,117,002

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

Statement of Activities  
Year Ended September 30, 2020

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	\$ 71,136,421	\$ 15,950,999	\$ 19,609,765	\$ -	\$ (35,575,657)	\$ -
Education	19,733,226	914,786	2,378,633	-	(16,439,807)	-
Health and welfare	28,941,800	2,198,507	7,113,368	-	(19,629,925)	-
Public safety	12,235,076	60,715	1,078,865	-	(11,095,496)	-
Cultural affairs and recreation	3,090,381	-	1,089,596	-	(2,000,785)	-
Transportation and commerce	16,671,986	2,803	9,616,702	12,803,324	5,750,843	-
State government appropriations	16,754,932	-	-	-	(16,754,932)	-
Depreciation - unallocated	790,361	-	-	-	(790,361)	-
Interest (unallocated)	573,755	-	-	-	(573,755)	-
Total primary government	<u>\$ 169,927,938</u>	<u>\$ 19,127,810</u>	<u>\$ 40,886,929</u>	<u>\$ 12,803,324</u>	<u>(97,109,875)</u>	<u>-</u>
Component units:						
National Development Bank of Palau	\$ 1,675,303	\$ (70,321)	\$ 1,500,000	\$ -	-	(245,624)
Palau Community College	8,625,808	1,530,254	3,799,557	-	-	(3,295,997)
Palau National Communications Corporation	14,315,234	12,268,260	-	-	-	(2,046,974)
Palau International Coral Reef Center	1,939,385	459,271	924,100	-	-	(556,014)
Palau Visitors Authority	1,491,673	72,120	-	-	-	(1,419,553)
Public Utilities Corporation	30,567,136	24,918,451	45,000	190,942	-	(5,412,743)
Palau District Housing Authority	(91,792)	153,245	-	2,720,259	-	2,965,296
Protected Areas Network Fund	1,898,288	-	82,173	-	-	(1,816,115)
Belau Submarine Cable Corporation	2,450,903	2,996,800	-	-	-	545,897
Total component units	<u>\$ 62,871,938</u>	<u>\$ 42,328,080</u>	<u>\$ 6,350,830</u>	<u>\$ 2,911,201</u>	<u>-</u>	<u>(11,281,827)</u>
General revenues:						
Taxes:						
Business gross receipts					11,847,390	-
Salary and wage					10,440,801	-
Alcohol and tobacco					11,391,656	-
Hotel occupancy					2,272,600	-
General import					2,659,351	-
Road use					807,548	-
Fuel export					655,053	-
Other					2,523,133	-
Unrestricted investment earnings					762,534	1,426,446
Contributions from primary government					-	13,337,052
Other					1,284,109	-
Total general revenues					<u>44,644,175</u>	<u>14,763,498</u>
Contributions from permanent funds					<u>10,192,768</u>	<u>-</u>
Total general revenues and contributions					<u>54,836,943</u>	<u>14,763,498</u>
Change in net position					(42,272,932)	3,481,671
Net position at beginning of year					<u>298,919,538</u>	<u>75,088,927</u>
Net position at end of year					<u>\$ 256,646,606</u>	<u>\$ 78,570,598</u>

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

Balance Sheet  
Governmental Funds  
September 30, 2020

		Special Revenue			
	General	Grants	Permanent Funds	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 70,682,043	\$ -	\$ -	\$ -	\$ 70,682,043
Investments	5,318,169	-	-	2,457,267	7,775,436
Receivables, net:					
Taxes	3,929,355	-	-	-	3,929,355
General	332,014	1,885,569	-	27,216	2,244,799
Federal agencies	-	9,916,561	-	-	9,916,561
Due from component units	50,773,774	554,444	-	-	51,328,218
Due from other funds	4,443,832	5,242,749	-	10,384,641	20,071,222
Advances	(26,634)	(8,253)	-	-	(34,887)
Prepaid items	30,375	225,326	-	12,025	267,726
Other assets	1,191,965	-	-	-	1,191,965
Restricted assets:					
Cash and cash equivalents	2,653,491	2,032,080	-	-	4,685,571
Investments	-	-	280,034,946	-	280,034,946
	<u>\$ 139,328,384</u>	<u>\$ 19,848,476</u>	<u>\$ 280,034,946</u>	<u>\$ 12,881,149</u>	<u>\$ 452,092,955</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 6,436,389	\$ 450,611	\$ -	\$ 503,124	\$ 7,390,124
Contracts payable	993,644	2,993,572	-	-	3,987,216
Due to State governments	1,104,542	-	-	-	1,104,542
Due to other funds	15,627,390	4,443,145	-	687	20,071,222
Accrued payroll and others	2,984,049	-	-	-	2,984,049
Other liabilities	642,885	-	-	-	642,885
Unearned revenues	-	7,684,818	-	-	7,684,818
Income tax refunds	818,365	-	-	-	818,365
Total liabilities	<u>28,607,264</u>	<u>15,572,146</u>	<u>-</u>	<u>503,811</u>	<u>44,683,221</u>
<b>Fund balances:</b>					
Nonspendable	51,996,114	225,326	280,034,946	-	332,256,386
Restricted	9,540,435	4,360,648	-	-	13,901,083
Committed	-	-	-	12,378,025	12,378,025
Unassigned:					
General fund	49,184,571	-	-	-	49,184,571
Special revenue funds	-	(309,644)	-	(687)	(310,331)
Total fund balances	<u>110,721,120</u>	<u>4,276,330</u>	<u>280,034,946</u>	<u>12,377,338</u>	<u>407,409,734</u>
	<u>\$ 139,328,384</u>	<u>\$ 19,848,476</u>	<u>\$ 280,034,946</u>	<u>\$ 12,881,149</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					131,880,093
Right to Use in governmental activities are not financial resources and, therefore, are not reported in the funds					5,945,675
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				(115,912,126)	
Compensated absences				(5,280,791)	
Accrued interest payable				(799,127)	
Net pension liability				(190,213,933)	
					(312,205,977)
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					59,810,076
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					(36,192,995)
Net position of governmental activities					<u>\$ 256,646,606</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, 2020

	General	Special	Permanent	Other Governmental Funds	Total
		Revenue			
		Grants	Compact		
<b>Revenues:</b>					
Taxes	\$ 40,963,991	\$ -	\$ -	\$ 1,633,541	\$ 42,597,532
Federal and other grants	-	40,886,929	-	-	40,886,929
Net change in the fair value of investments	607,919	-	10,192,768	186,723	10,987,410
Fees and charges	5,648,275	-	-	2,730,309	8,378,584
Licenses and permits	10,708,451	-	-	40,775	10,749,226
Other	855,140	-	-	-	855,140
<b>Total revenues</b>	<b>58,783,776</b>	<b>40,886,929</b>	<b>10,192,768</b>	<b>4,591,348</b>	<b>114,454,821</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Judicial Branch	3,189,657	-	-	-	3,189,657
Legislative Branch	5,763,686	-	-	-	5,763,686
Office of the President	1,666,241	1,546,004	-	-	3,212,245
Office of the Vice-President	598,945	5,488	-	-	604,433
Ministry of Finance	4,139,940	2,837,214	-	-	6,977,154
Ministry of State	4,103,343	365	-	17,532	4,121,240
Ministry of Community and Cultural Affairs	1,473,316	1,089,596	-	-	2,562,912
Ministry of Education	8,868,909	2,100,109	-	-	10,969,018
Ministry of Public Infrastructure, Industry and Commerce	7,014,613	8,788,817	-	230,939	16,034,369
Ministry of Justice	6,799,542	1,503,922	-	60,493	8,363,957
Ministry of Health	11,186,900	7,113,368	-	2,535,894	20,836,162
Ministry of Natural Resources, Environment and Tourism	1,562,268	27,105	-	19,387	1,608,760
Boards, Commissions, and Authorities	1,242,317	196,653	-	-	1,438,970
State Governments	8,912,383	6,367,549	-	-	15,279,932
Independent Agencies	3,272,366	-	-	237,458	3,509,824
<b>Contributions to:</b>					
National Development Bank of Palau	5,739,306	-	-	-	5,739,306
COVID-19 Private Sector Relief Program	4,892,334	-	-	-	4,892,334
Social Security Retirement Fund	2,760,000	-	-	-	2,760,000
Civil Service Pension Trust Fund	4,945,651	-	-	-	4,945,651
Palau Housing Authority	2,720,259	-	-	-	2,720,259
PPUC Power Subsidy	1,800,000	-	-	-	1,800,000
PPUC AFPAC and Subsidy	2,100,000	-	-	-	2,100,000
State Governments	1,475,000	-	-	-	1,475,000
Others	805,895	-	-	-	805,895
Other Agencies and Activities	2,883,626	9,942,290	-	-	12,825,916
Education assistance	6,358,963	-	-	-	6,358,963
Financial and Compliance Audit	-	249,790	-	-	249,790
Investment management fees	-	-	1,529,141	-	1,529,141
Capital projects	1,268,173	-	-	-	1,268,173
<b>Debt service:</b>					
Principal retirement	4,421,512	-	-	-	4,421,512
Interest	573,755	-	-	-	573,755
<b>Total expenditures</b>	<b>112,538,900</b>	<b>41,768,270</b>	<b>1,529,141</b>	<b>3,101,703</b>	<b>158,938,014</b>
<b>Excess of revenues over expenditures</b>	<b>(53,755,124)</b>	<b>(881,341)</b>	<b>8,663,627</b>	<b>1,489,645</b>	<b>(44,483,193)</b>
<b>Other financing sources (uses):</b>					
Loan proceeds	57,451,181	-	-	-	57,451,181
Operating transfers in	15,175,649	1,898,216	-	1,149,000	18,222,865
Operating transfers out	(1,847,216)	(116,050)	(15,000,000)	(1,259,599)	(18,222,865)
<b>Total other financing sources (uses), net</b>	<b>70,779,614</b>	<b>1,782,166</b>	<b>(15,000,000)</b>	<b>(110,599)</b>	<b>57,451,181</b>
<b>Net change in fund balances</b>	<b>17,024,490</b>	<b>900,825</b>	<b>(6,336,373)</b>	<b>1,379,046</b>	<b>12,967,988</b>
Fund balances at beginning of year	93,696,630	3,375,505	286,371,319	10,998,292	394,441,746
Fund balances at end of year	\$ 110,721,120	\$ 4,276,330	\$ 280,034,946	\$ 12,377,338	\$ 407,409,734

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, 2020

Net change in fund balances - total governmental funds \$ 12,967,988

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	\$ 25,895,745	
Depreciation expense, net	<u>(15,863,112)</u>	
		10,032,633

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	\$ (39,451,181)	
Proceeds from MICB loans	(15,000,000)	
Proceeds from ICDF loan	(3,000,000)	
Repayment of MICB loans	2,171,411	
Repayment of ADB loan	2,250,101	
SDR currency adjustment	428,969	
		(52,600,700)

Long term prepayments are not reported in the governmental funds:

Amortization	<u>(247,622)</u>	(247,622)
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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	\$ (409,599)	
Net pension activity	<u>(12,015,632)</u>	
		<u>(12,425,231)</u>

Change in net position of governmental activities. \$ (42,272,932)

See accompanying notes to basic financial statements.

## REPUBLIC OF PALAU

### Statement of Fiduciary Net Position Fiduciary Funds September 30, 2020

	<u>Private Purpose Trust</u>	<u>Pension (and Other Employee Benefit) Trust</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 3,592,030	\$ 288,668	\$ 3,880,698
Time certificates of deposit	-	1,854,801	1,854,801
Receivables, net:			
Contributions	2,870,869	336,583	3,207,452
Accrued interest and dividends	231,528	-	231,528
Other	339,177	213,743	552,920
Investments	124,416,184	29,951,605	154,367,789
Due from component units	2,075,322	-	2,075,322
Prepaid items	11,474	-	11,474
Capital assets, net	<u>565,337</u>	<u>24,838</u>	<u>590,175</u>
Total assets	<u>134,101,921</u>	<u>32,670,238</u>	<u>166,772,159</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred outflows from pensions	<u>934,297</u>	<u>328,232</u>	<u>1,262,529</u>
	<u>\$ 135,036,218</u>	<u>\$ 32,998,470</u>	<u>\$ 168,034,688</u>
<b><u>LIABILITIES</u></b>			
Benefits payable	\$ 820,831	\$ -	\$ 820,831
Other liabilities and accruals	64,415	68,897	133,312
Net pension liability	<u>3,331,449</u>	<u>1,078,247</u>	<u>4,409,696</u>
Total liabilities	<u>4,216,695</u>	<u>1,147,144</u>	<u>5,363,839</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Deferred inflows from pensions	<u>631,579</u>	<u>184,682</u>	<u>816,261</u>
<b><u>NET POSITION</u></b>			
Held in trust for:			
Social security benefits	130,187,944	-	130,187,944
Pension benefits	<u>-</u>	<u>31,666,644</u>	<u>31,666,644</u>
Total net position	<u>130,187,944</u>	<u>31,666,644</u>	<u>161,854,588</u>
	<u>\$ 135,036,218</u>	<u>\$ 32,998,470</u>	<u>\$ 168,034,688</u>

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
Year Ended September 30, 2020

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
Additions:			
Contributions:			
Government employees	\$ 11,731,111	\$ -	\$ 11,731,111
Private employees	13,942,674	-	13,942,674
Retirees and disabled individuals	707,703		
Employer contributions	-	3,721,624	3,721,624
Plan member contributions	345,245	3,705,241	4,050,486
Penalties and interest	431,471	-	431,471
	27,158,204	7,426,865	33,877,366
Allowance for doubtful accounts	(285,476)	-	(285,476)
Total contributions	26,872,728	7,426,865	33,591,890
Investment income:			
Net change in the fair value of investments	6,195,095	1,555,420	7,750,515
Interest and dividends	2,648,853	662,054	3,310,907
Total investment income	8,843,948	2,217,474	11,061,422
Less investment expense	198,620	197,072	395,692
Net investment income	8,645,328	2,020,402	10,665,730
Other	337,790	5,173,080	5,510,870
Total additions	35,855,846	14,620,347	49,768,490
Deductions:			
Benefits	30,859,278	10,299,558	41,158,836
General and administrative	1,800,958	412,892	2,213,850
Total deductions	32,660,236	10,712,450	43,372,686
Change in net position held in trust for:			
Social security benefits	3,195,610	-	3,195,610
Pension benefits	-	3,907,897	3,907,897
	3,195,610	3,907,897	7,103,507
Transfer from primary government	2,760,000	-	2,760,000
Change in fiduciary net position	5,955,610	3,907,897	9,863,507
Net position at beginning of year	124,232,334	27,758,747	151,991,081
Net position at end of year	\$ 130,187,944	\$ 31,666,644	\$ 161,854,588

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

**Combining Statement of Net Position  
Component Units  
September 30, 2020**

	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
<b>Assets</b>										
<b>Current assets:</b>										
Cash and cash equivalents	\$ 5,986,567	\$ 121,531	\$ 465,082	\$ 1,736,705	\$ 685,242	\$ 11,716,991	\$ 2,984,048	\$ 1,561,154	\$ 4,348,638	\$ 29,605,958
Investments	-	-	-	-	-	-	2,888,992	1,545,606	-	4,434,598
Receivables, net	258,714	2,086,246	1,336,291	620,203	69,019	2,495,107	314,404	-	1,176,000	8,355,984
Inventories	26,337	276,951	523,710	17,025	-	7,601,129	-	-	-	8,445,152
Due from primary government	-	-	-	-	-	731,132	-	49,785	-	780,917
Prepaid expenses and other	10,359	-	302,368	8,355	35,420	417,239	-	29,866	-	803,607
Total current assets	6,281,977	2,484,728	2,627,451	2,382,288	789,681	22,961,598	6,187,444	3,186,411	5,524,638	52,426,216
<b>Noncurrent assets:</b>										
Investments	-	-	2,712,124	455,441	-	-	-	-	-	3,167,565
Receivables	26,547,714	-	-	-	-	234,810	3,696,124	-	-	30,478,648
<b>Capital assets:</b>										
Nondepreciable capital assets	-	-	556,685	-	-	23,129,791	-	-	665,126	24,351,602
Capital assets, net of accumulated depreciation	662,587	1,684,729	20,649,128	1,509,923	93,590	50,066,999	466,767	6,472	11,436,368	86,576,563
Indefeasible right of use	-	-	-	-	-	-	-	-	5,888,773	5,888,773
Foreclosed real estate	347,188	-	-	-	-	-	-	-	-	347,188
Other noncurrent assets	-	-	54,300	-	-	-	-	-	58,402	112,702
Restricted assets:	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	2,863,801	1,983,704	250,146	-	-	-	-	-	-	5,097,651
Investments	-	5,977,405	-	-	-	-	-	-	-	5,977,405
Total noncurrent assets	30,421,290	9,645,838	24,222,383	1,965,364	93,590	73,431,600	4,162,891	6,472	18,048,669	161,998,097
Total assets	36,703,267	12,130,566	26,849,834	4,347,652	883,271	96,393,198	10,350,335	3,192,883	23,573,307	214,424,313
<b>Deferred Outflows of Resources</b>										
Deferred outflows from pensions	802,858	3,358,134	4,284,465	906,757	574,161	9,612,349	153,965	-	-	19,692,689
	\$ 37,506,125	\$ 15,488,700	\$ 31,134,299	\$ 5,254,409	\$ 1,457,432	\$ 106,005,547	\$ 10,504,300	\$ 3,192,883	\$ 23,573,307	\$ 234,117,002
<b>Liabilities</b>										
<b>Current liabilities:</b>										
Current portion of long-term debt	\$ 720,879	\$ -	\$ 2,357,943	\$ -	\$ -	\$ 625,791	\$ -	\$ -	\$ -	\$ 3,704,613
Accounts payable	389,234	276,951	1,623,736	83,933	2,955	2,830,974	-	39,340	-	5,247,123
Due to primary government	434,863	-	-	-	308,446	1,171,370	285,714	-	-	2,200,393
Due to fiduciary funds	337,251	-	-	-	-	-	-	-	-	337,251
Accrued payroll and others	-	1,070,792	401,735	60,213	39,446	1,057,016	10,188	18,306	133,492	2,791,188
Unearned revenues	150,752	640,509	-	21,790	-	482,402	-	5,206	1,411,000	2,711,659
Other liabilities	43,616	-	570,197	-	-	1,155,311	-	45,255	-	1,814,379
Total current liabilities	2,076,595	1,988,252	4,953,611	165,936	350,847	7,322,864	295,902	108,107	1,544,492	18,806,606
<b>Noncurrent liabilities:</b>										
Long-term debt, net of current portion	857,118	-	14,235,792	-	-	3,284,557	-	-	-	18,377,467
Net pension liability	2,428,960	12,858,175	11,837,827	2,548,629	1,270,443	24,776,270	441,951	-	-	56,162,255
Due to primary government	4,235,853	-	-	-	-	21,916,110	4,285,715	-	20,244,149	50,681,827
Due to fiduciary funds	1,738,071	-	-	-	-	-	-	-	-	1,738,071
Total noncurrent liabilities	9,260,002	12,858,175	26,073,619	2,548,629	1,270,443	49,976,937	4,727,666	-	20,244,149	126,959,620
Total liabilities	11,336,597	14,846,427	31,027,230	2,714,565	1,621,290	57,299,801	5,023,568	108,107	21,788,641	145,766,226
<b>Deferred Inflows of Resources</b>										
Deferred inflows from pensions	387,330	3,038,649	1,775,894	535,126	308,384	3,635,466	99,329	-	-	9,780,178
<b>Net Position</b>										
Net investment in capital assets	662,587	1,684,729	4,612,078	1,509,923	93,590	49,142,790	466,767	6,472	(2,253,882)	55,925,054
<b>Restricted:</b>										
Endowment	-	6,037,928	-	-	-	-	-	-	-	6,037,928
Debt service	8,332,825	-	250,146	-	-	-	-	-	-	8,582,971
Other purposes	16,786,786	2,246,415	-	261,790	-	-	4,039,265	3,078,304	-	26,412,560
Unrestricted	-	(12,365,448)	(6,531,049)	233,005	(565,832)	(4,072,510)	875,371	-	4,038,548	(18,387,915)
Total net position	25,782,198	(2,396,376)	(1,668,825)	2,004,718	(472,242)	45,070,280	5,381,403	3,084,776	1,784,666	78,570,598
	\$ 37,506,125	\$ 15,488,700	\$ 31,134,299	\$ 5,254,409	\$ 1,457,432	\$ 106,005,547	\$ 10,504,300	\$ 3,192,883	\$ 23,573,307	\$ 234,117,002

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, 2020

	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	\$ 2,344,923	\$ 1,002,054	\$ 12,125,814	\$ 420,446	\$ -	\$ 24,116,479	\$ 149,720	\$ -	\$ 2,996,800	\$ 43,156,236
Grants and contributions	-	3,799,557	-	924,100	-	-	-	-	-	4,723,657
Other	(2,415,244)	528,200	142,446	38,825	72,120	801,972	3,525	-	-	(828,156)
Total operating revenues	(70,321)	5,329,811	12,268,260	1,383,371	72,120	24,918,451	153,245	-	2,996,800	47,051,737
Operating expenses:										
Cost of services	-	5,201,148	7,984,162	-	-	21,390,728	-	1,564,658	-	36,140,696
Depreciation	42,525	394,602	2,804,804	253,006	27,049	5,208,657	28,101	399	1,136,499	9,895,642
Administration costs	1,077,609	3,111,362	2,754,262	1,684,836	1,464,624	3,113,940	347,618	333,231	856,344	14,743,826
Total operating expenses	1,120,134	8,707,112	13,543,228	1,937,842	1,491,673	29,713,325	375,719	1,898,288	1,992,843	60,780,164
Operating income (loss)	(1,190,455)	(3,377,301)	(1,274,968)	(554,471)	(1,419,553)	(4,794,874)	(222,474)	(1,898,288)	1,003,957	(13,728,427)
Nonoperating revenues (expenses):										
Contributions from primary government	5,739,306	2,546,000	-	714,765	1,426,000	2,100,000	150,000	660,981	-	13,337,052
Net change in the fair value of investments	-	382,868	527,520	30,670	-	-	(145,209)	611,293	-	1,407,142
Interest income	15,402	-	-	-	-	1,752	428	1,629	93	19,304
Grant revenues	1,500,000	-	-	-	-	45,000	-	82,173	-	1,627,173
Interest expense	(314,303)	-	(770,106)	-	-	(617,164)	-	-	(458,060)	(2,159,633)
Other, net	(240,866)	81,304	(1,900)	(1,543)	-	(236,647)	467,511	-	-	67,859
Total nonoperating revenues (expenses), net	6,699,539	3,010,172	(244,486)	743,892	1,426,000	1,292,941	472,730	1,356,076	(457,967)	14,298,897
Capital contributions	-	-	-	-	-	190,942	2,720,259	-	-	2,911,201
Change in net position	5,509,084	(367,129)	(1,519,454)	189,421	6,447	(3,310,991)	2,970,515	(542,212)	545,990	3,481,671
Net position at beginning of year	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
Net position at end of year	\$ 25,782,198	\$ (2,396,376)	\$ (1,668,825)	\$ 2,004,718	\$ (472,242)	\$ 45,070,280	\$ 5,381,403	\$ 3,084,776	\$ 1,784,666	\$ 78,570,598

See accompanying notes to basic financial statements.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

### (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, 2020

### (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, 2020

### (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, 2020

### (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](http://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, 2020

### (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 which the Republic is legally or contractually obligated to spend 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 \$296,908,957 of restricted net position, of which \$12,513,363 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, 2020

### (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, 2020

### (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, 2020

### (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 fair value measurements as defined below. 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, 2020

### (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. Joint Venture

Investments in a joint venture are recorded at equity.

#### L. Interfund Receivables and Payables

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

#### M. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan 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, 2020

(1) Summary of Significant Accounting Policies, Continued

N. 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, 2020.

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	10 - 50 years
Infrastructure	10 - 20 years
Vehicles	3 - 6 years
Machinery and equipment	4 - 20 years

O. 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.

P. 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.

Q. 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, 2020

(1) Summary of Significant Accounting Policies, Continued

R. 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.

S. 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.

T. 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.

U. 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.
- 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.



## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

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

#### U. Fund Equity, Continued

- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned - represents unrestricted, uncommitted and unassigned fund balance in the general fund and 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.

#### V. 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.

#### W. New Accounting Standards

During fiscal year 2020, the Republic implemented the following pronouncements:

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos: 84, 89, 90, 91, 92 and 93 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. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements, except for Statement No. 89 which was implemented October 1, 2018.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

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

#### W. New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements Nos. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2020

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

##### W. New Accounting Standards, Continued

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

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

#### W. New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

#### X. Encumbrances

The Republic utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2020, the Republic has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants</u>	<u>Other Governmental</u>	<u>Total</u>
\$ <u>613,943</u>	\$ <u>2,394,285</u>	\$ <u>882,990</u>	\$ <u>3,891,218</u>

#### Y. 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.

#### Z. 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, 2019 from which summarized information was derived.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

### (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 Manager's 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).
- (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 classes.

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).

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2020

#### (2) Deposits and Investments, Continued

- (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.

As of September 30, 2020, the carrying amount of the primary government's total cash and cash equivalents was \$75,367,614 and the corresponding bank balances were \$76,216,277. Of the bank balances, \$75,214,202 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020, bank deposits in the amount of \$750,000 were FDIC insured. The remaining bank deposits of \$2,075 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.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2020, the carrying amount of the fiduciary fund's total cash and cash equivalents was \$3,880,698 and the corresponding bank balances were \$4,242,945, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2020, 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, 2020, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$34,703,609 and the corresponding bank balances were \$32,976,948, 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, 2020, bank deposits in the amount of \$4,702,864 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, 2020, investments of the primary government are as follows:

General Fund:	
Fixed income	\$ 971,219
Equities	3,468,103
Mutual funds	723,351
Money market funds	<u>155,496</u>
	<u>5,318,169</u>
Permanent Fund:	
Fixed income	66,333,922
Equities	164,290,853
Real estate and tangibles	9,736,581
Alternatives	20,523,644
Mutual Funds	634,030
Money market funds	<u>18,515,916</u>
	<u>280,034,946</u>
Other Governmental Funds:	
Equities	2,435,796
Money market funds	<u>21,471</u>
	<u>2,457,267</u>
	\$ <u>287,810,382</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(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, 2020.

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, 2020, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2020, investments in debt securities for the General Fund were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>S&amp;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	\$510,868	\$ -	\$130,339	\$262,867	\$117,662	AAA
Federal Agencies	16,987	-	16,987	-	-	AA
Corporate Bonds	132,386	-	65,430	38,310	28,646	A
Corporate Bonds	78,381	-	26,796	11,528	40,057	A-
Corporate Bonds	71,908	10,401	21,766	39,741	-	BBB+
Corporate Bonds	91,873	10,120	21,446	60,307	-	BBB
Corporate Bonds	57,928	47,360	-	10,568	-	BBB-
Corporate Bonds	<u>10,888</u>	-	-	<u>10,888</u>	-	Unrated
	<u>\$971,219</u>	<u>\$67,881</u>	<u>\$282,764</u>	<u>\$434,209</u>	<u>\$186,365</u>	



**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

As of September 30, 2020, 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	
Treasury Securities	\$ 6,192,472	\$ -	\$2,654,804	\$1,645,992	\$1,891,676	AA+
Treasury Securities	440,004	45,942	84,264	198,925	110,873	AAA
Municipal Bonds	430,439	-	56,477	-	373,962	AA+
Municipal Bonds	165,947	-	-	-	165,947	A-
Municipal Bonds	769,617	-	393,147	192,686	183,784	None
Federal Agencies	11,366,008	4,970,232	3,577,067	2,471,829	346,880	AA+
Federal Agencies	135,077	-	135,077	-	-	None
Federal Agencies	2,229,520	-	2,029,520	200,000	-	Unrated
Asset-backed Security	1,180,649	186	13,460	290,975	876,028	Unrated
Corporate Bonds	1,201,055	55,003	506,774	387,610	251,668	AAA
Corporate Bonds	260,785	-	121,081	-	139,704	AA+
Corporate Bonds	348,585	-	11,325	111,639	225,621	AA
Corporate Bonds	814,180	55,118	186,451	286,462	286,149	AA-
Corporate Bonds	1,848,516	412,118	377,538	518,287	540,573	A+
Corporate Bonds	2,753,771	115,117	893,402	1,382,907	362,345	A
Corporate Bonds	6,201,821	-	2,593,042	2,709,713	899,066	A-
Corporate Bonds	5,061,464	10,401	1,313,800	3,364,985	372,278	BBB+
Corporate Bonds	956,475	79,404	513,750	363,321	-	BBB
Corporate Bonds	514,643	10,140	355,397	149,106	-	BBB-
Corporate Bonds	1,038,549	-	565,725	472,824	-	BB+
Corporate Bonds	590,904	-	428,004	162,900	-	BB
Corporate Bonds	2,313,076	-	1,124,529	1,144,972	43,575	BB-
Corporate Bonds	3,195,653	214,203	2,007,012	974,438	-	B+
Corporate Bonds	1,767,823	-	1,279,781	488,042	-	B
Corporate Bonds	1,042,498	-	557,898	484,600	-	B-
Corporate Bonds	439,922	-	343,838	96,084	-	CCC+
Corporate Bonds	111,300	-	111,300	-	-	CCC
Corporate Bonds	499,420	250,000	144,993	104,427	-	None
Corporate Bonds	9,590,723	54,095	7,125,078	2,220,928	190,622	Unrated
Certificate of Deposit	1,499,985	1,499,985	-	-	-	Unrated
Preferred Securities	167,896	-	167,896	-	-	BBB+
Preferred Securities	<u>1,205,145</u>	<u>152,187</u>	<u>1,052,958</u>	<u>-</u>	<u>-</u>	Unrated
	<u>\$66,333,922</u>	<u>\$7,924,131</u>	<u>\$30,725,388</u>	<u>\$20,423,652</u>	<u>\$7,260,751</u>	

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(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, 2020:

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	\$ 510,868	\$ -	\$ 510,868	\$ -
Corporate bonds	<u>460,351</u>	<u>-</u>	<u>460,351</u>	<u>-</u>
	971,219	-	971,219	-
Equity securities:				
U.S. equities	<u>3,468,103</u>	<u>3,468,103</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	4,439,322	\$ <u>3,468,103</u>	\$ <u>971,219</u>	\$ <u>-</u>
Investments measured at NAV:				
Mutual funds	723,351			
Investments measured at amortized cost:				
Cash management account	<u>155,496</u>			
	\$ <u>5,318,169</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	\$ 6,632,476	\$ -	\$ 6,632,476	\$ -
U.S. Government Agencies	13,730,605	-	13,730,605	-
Asset-backed Securities	1,180,649	-	1,180,649	-
Preferred Securities	1,373,041	-	1,373,041	-
Municipal obligations	1,366,003	-	1,366,003	-
Certificate of Deposit	1,499,985	-	1,499,985	-
Corporate notes	<u>40,551,163</u>	<u>-</u>	<u>40,551,163</u>	<u>-</u>
	66,333,922	-	66,333,922	-
Equity securities:				
U.S. equities	96,025,864	96,025,864	-	-
Non-US Equities	68,264,989	68,264,989	-	-
Real Estate and tangibles	<u>9,736,581</u>	<u>-</u>	<u>-</u>	<u>9,736,581</u>
Total investments at fair value	240,361,356	\$ <u>164,290,853</u>	\$ <u>66,333,922</u>	\$ <u>9,736,581</u>
Investments measured at NAV:				
Alternatives	20,523,644			
Mutual Funds	634,030			
Investments measured at amortized cost:				
Cash management account	<u>18,515,916</u>			
	\$ <u>280,034,946</u>			

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Other Governmental Funds:

	<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:				
Equity securities:				
U.S. Equities	1,883,080	1,883,080	-	-
Non-U.S. Equities	<u>552,716</u>	<u>552,716</u>	-	-
Total investments by fair value level	2,435,796	<u>\$2,435,796</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Cash management account	<u>21,471</u>			
	<u>\$2,457,267</u>			

Fiduciary Funds

Republic of Palau Social Security Retirement Fund:

As of September 30, 2020, investments of the Republic of Palau Social Security Retirement Fund are as follows:

Fixed income	\$ 33,258,390
Mutual funds	90,325,977
Money market funds	<u>831,817</u>
	<u>\$ 124,416,184</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.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

##### Fiduciary Funds, Continued

##### Republic of Palau Social Security Retirement Fund, Continued

#### (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.

#### (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.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(2) Deposits and Investments, Continued

**B. Investments, Continued**

Fiduciary Funds, Continued

Republic of Palau Social Security Retirement Fund, Continued

As of September 30, 2020, 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	\$ 2,925,207	\$ -	\$ -	\$ -	\$ 2,925,207	Aaa	AAA
U.S. Treasury bonds	3,291,533	-	2,766,533	525,000	-	Aaa	AAA
U.S. Municipal obligations	274,998	-	-	-	274,998	A2	A+
U.S. Municipal obligations	99,526	-	-	-	99,526	Aa1	AA+
U.S. Municipal obligations	202,508	-	-	-	202,508	Aa1	Unrated
U.S. Municipal obligations	729,641	352,121	-	-	377,520	Aa2	AA+
U.S. Municipal obligations	108,375	-	108,375	-	-	Aa2	Unrated
U.S. Municipal obligations	315,792	-	-	315,792	-	Aa3	Unrated
U.S. Municipal obligations	73,504	-	-	-	73,504	Aaa	AA+
U.S. Municipal obligations	163,883	-	163,883	-	-	Aaa	Unrated
U.S. Municipal obligations	107,819	-	107,819	-	-	Unrated	AA+
U.S. Municipal obligations	103,798	-	-	-	103,798	Unrated	AAA
Corporate bonds	950,034	100,158	232,681	617,195	-	A1	A
Corporate bonds	183,310	-	-	183,310	-	A1	A-
Corporate bonds	762,149	55,064	136,296	391,043	179,746	A1	A+
Corporate bonds	520,727	-	143,403	118,051	259,273	A1	AA-
Corporate bonds	1,065,492	175,179	411,476	341,274	137,563	A2	A
Corporate bonds	319,712	-	-	212,304	107,408	A2	A-
Corporate bonds	228,086	-	-	228,086	-	A2	A+
Corporate bonds	310,109	-	310,109	-	-	A2	BBB+
Corporate bonds	546,122	-	363,066	183,056	-	A3	A-
Corporate bonds	341,681	-	-	-	341,681	A3	A+
Corporate bonds	627,174	310,069	-	-	317,105	A3	A+
Corporate bonds	651,604	-	289,275	111,639	250,690	A3	AA
Corporate bonds	204,009	100,216	103,793	-	-	A3	AA-
Corporate bonds	603,840	-	433,450	170,390	-	A3	BBB+
Corporate bonds	300,690	-	157,932	-	142,758	Aa1	AA+
Corporate bonds	180,506	-	-	180,506	-	Aa2	A
Corporate bonds	163,341	-	-	-	163,341	Aa3	A
Corporate bonds	439,653	-	265,135	174,518	-	Aa3	A+
Corporate bonds	202,903	-	-	81,437	121,466	Aa3	AA-
Corporate bonds	375,342	-	-	-	375,342	Aa3	BBB+
Corporate bonds	2,059,170	600,120	590,231	510,060	358,759	Aaa	AAA
Corporate bonds	433,266	-	433,266	-	-	Aaa	Unrated
Corporate bonds	1,852,375	-	1,665,700	-	186,675	AAA	AAA
Corporate bonds	269,008	-	-	-	269,008	Baa1	A
Corporate bonds	1,412,511	-	232,680	101,465	1,078,366	Baa1	A-
Corporate bonds	418,958	-	66,082	352,876	-	Baa1	BBB
Corporate bonds	601,661	-	427,706	173,955	-	Baa1	BBB+
Corporate bonds	555,613	-	273,561	282,052	-	Baa2	BBB
Corporate bonds	224,022	-	-	224,022	-	Unrated	AA-
Corporate bonds	275,000	-	-	275,000	-	Aaa	AAA
Government agencies	625,481	-	625,481	-	-	Aaa	Unrated
Government agencies	5,555,895	-	827,544	3,764,796	963,555	Aaa	AA+
Government agencies	1,602,362	140	538,518	-	1,063,704	Unrated	AAA
	<u>\$33,258,390</u>	<u>\$1,693,067</u>	<u>\$11,673,995</u>	<u>\$9,517,827</u>	<u>\$10,373,501</u>		

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(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, 2020:

Investments by fair value level	09/30/20	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury securities	\$ 6,216,740	\$ 6,216,740	\$ -	\$ -
U.S. Municipal obligations	7,783,738	-	7,783,738	-
Other U.S. Government obligations	2,179,844	-	2,179,844	-
Corporate bonds	<u>17,078,068</u>	<u>-</u>	<u>17,078,068</u>	<u>-</u>
Total investments by fair value level	\$ <u>33,258,390</u>	\$ <u>6,216,740</u>	\$ <u>27,041,650</u>	\$ <u>-</u>
Investments measured at net asset value (NAV):				
Mutual funds	\$ <u>90,325,977</u>			
Investments measured at cost based measure:				
Money market funds	\$ <u>831,817</u>			

Republic of Palau Civil Service Pension Trust Fund:

As of September 30, 2020, investments of the Republic of Palau Civil Service Pension Trust Fund are as follows:

Equities	\$ 15,351,786
Fixed income	12,422,723
Mutual Funds	1,390,990
Money market funds	<u>786,106</u>
	<u>\$ 29,951,605</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.
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.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

##### Fiduciary Funds, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued:

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 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.

##### Equities:

- (A) Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

##### Fiduciary Funds, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued:

- (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.

The foregoing allowable strategies may be pursued in any manner including through collective investment vehicles such as hedge funds, funds of hedge funds, private equity (i.e. LBO, Venture, Mezzanine Debt, etc.) funds and funds of funds, real estate funds and funds of funds, commodity pools, and structured credit products such as equity collateralized debt obligations.



**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued:

(C) Allowable investments may include, but are not limited to, 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, 2020, 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	\$ 32,397	\$ -	\$ 32,397	\$ -	\$ -	Not rated
Government Sponsored Enterprise Securities	2,429,047	1,904,745	524,302	-	-	Aaa
Government Sponsored Enterprise Securities	1,454,007	-	1,454,007	-	-	Not rated
U.S. Treasury Notes	931,289	-	-	931,289	-	Aaa
Preferred securities	204,164	22,443	181,721	-	-	Not rated
Corporate bonds	442,104	-	442,104	-	-	A1
Corporate bonds	2,353,187	-	-	2,353,187	-	A2
Corporate bonds	2,938,137	-	193,402	2,624,862	119,873	A3
Corporate bonds	4,590	-	-	4,590	-	B1
Corporate bonds	18,795	-	18,795	-	-	B2
Corporate bonds	10,440	-	10,440	-	-	Baa1
Corporate bonds	11,010	-	11,010	-	-	Baa2
Corporate bonds	<u>1,593,556</u>	<u>81,714</u>	<u>1,093,230</u>	<u>363,486</u>	<u>55,126</u>	Not rated
	<u>\$ 12,422,723</u>	<u>\$ 2,008,902</u>	<u>\$ 3,961,408</u>	<u>\$ 6,277,414</u>	<u>\$ 174,999</u>	

The Republic of Palau Civil Service Pension Trust Fund has the following fair value measurements as of September 30, 2020:

Investments by fair value level	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities				
U.S. Treasury securities	\$ 931,289	\$ 931,289	\$ -	\$ -
Federal Home Loan Banks	2,429,047	-	2,429,047	-
Federal Agriculture Mortgage Corporation	1,454,007	-	1,454,007	-
Fanny Mae Pool	32,397	-	32,397	-
Preferred securities	204,164	-	-	204,164
Corporate bonds	<u>7,371,819</u>	<u>-</u>	<u>5,716,736</u>	<u>1,655,083</u>
Total debt securities	<u>12,422,723</u>	<u>931,289</u>	<u>9,632,187</u>	<u>1,859,247</u>
Equity securities				
Real Estate Investment Trusts	1,531,919	1,531,919	-	-
Other - U.S. equities	7,372,517	7,372,517	-	-
Other - non-U.S. equities	<u>6,447,350</u>	<u>6,447,350</u>	<u>-</u>	<u>-</u>
Total equity securities	<u>15,351,786</u>	<u>15,351,786</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	27,774,509	<u>\$ 16,283,075</u>	<u>\$ 9,632,187</u>	<u>\$ 1,859,247</u>
Investments measured at the net asset value (NAV)				
Mutual funds	1,390,990			
Investments measured at amortized cost				
Money market investments	<u>786,106</u>			
	<u>\$ 29,951,605</u>			

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units

As of September 30, 2020, investments of the discretely presented component units are as follows:

Palau Community College (PCC):

Fixed income	\$ 1,623,602
Domestic equities	2,112,068
Non-U.S. equities	1,754,053
Real estate and tangibles	336,738
Cash and cash alternatives	<u>150,944</u>
	<u>\$ 5,977,405</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, 2020, maturities of investments in fixed income securities for PCC are as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More than 10	Moody	Standard & Poor's
US Treasury securities	\$ 211,390	\$ -	\$ -	\$ 211,390	\$ -	AAA	Unrated
US Treasury securities	274,166	-	274,166	-	-	AAA	Unrated
US Treasury securities	248,378	-	-	-	248,378	AAA	AA+
Government securities	130,411	-	130,411	-	-	BAA2	BBB
Corporate bonds	152,483	-	-	152,483	-	A2	A-
Corporate bonds	102,504	-	-	102,504	-	BAA3	BBB
Corporate bonds	51,761	-	-	51,761	-	A3	A-
Corporate bonds	100,130	-	-	100,130	-	A3	BBB+
Corporate bonds	52,913	-	-	52,913	-	BAA1	BBB
Corporate bonds	51,034	-	-	51,034	-	A2	BBB+
Corporate bonds	49,189	-	-	49,189	-	BAA2	BBB
Corporate bonds	52,970	-	-	-	52,970	BAA2	BBB
Corporate bonds	49,301	-	-	-	49,301	AAA	AAA
Corporate bonds	48,107	-	-	-	48,107	BAA1	BBB+
Corporate bonds	<u>48,865</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,865</u>	AAA	Unrated
	<u>\$ 1,623,602</u>	<u>\$ -</u>	<u>\$ 404,577</u>	<u>\$ 771,404</u>	<u>\$ 447,621</u>		

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(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, 2020:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Debt securities:				
U.S. Treasury securities	\$ 733,932	\$ 733,932	\$ -	\$ -
Government securities	130,413	-	130,413	-
Corporate bonds	<u>759,257</u>	<u>-</u>	<u>759,257</u>	<u>-</u>
	1,623,602	733,932	889,670	-
Equity securities:				
Common stock	<u>4,202,859</u>	<u>4,202,859</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	5,826,461	<u>\$ 4,936,791</u>	<u>\$ 889,670</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Cash management account	<u>150,944</u>			
	<u>\$ 5,977,405</u>			

Palau National Communications Corporation (PNCC):

	Actual Allocation	Allocation Per Policy	
Fixed income	33%	36%	\$ 901,918
Domestic equities	45%	43%	1,204,065
Non-U.S. equities	18%	19%	496,318
Exchange-traded funds	1%	1%	29,882
Cash and cash equivalents	3%	1%	<u>79,941</u>
			<u>\$ 2,712,124</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, 2020

### (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, 2020

(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, 2020, maturities of investments in fixed income securities for PNCC are as follows:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment maturities (in years)</u>				<u>Credit Rating</u>	
		<u>Less than</u>		<u>More than</u>		<u>Moody</u>	<u>Standard &amp; Poor</u>
		<u>1</u>	<u>1-5</u>	<u>6-10</u>	<u>10</u>		
Corporate bonds	\$ 27,431	\$ -	\$ -	\$ 27,431	\$ -	Baa2	BBB
Corporate bonds	27,200	-	-	27,200	-	A2	A-
Corporate bonds	27,786	-	-	27,786	-	Baa3	BBB
Corporate bonds	27,369	-	-	27,369	-	Baa2	BBB
Corporate bonds	27,805	-	-	27,805	-	Baa3	BBB
Corporate bonds	27,652	-	-	27,652	-	A3	A-
Corporate bonds	27,687	-	-	27,687	-	A3	A-
Corporate bonds	28,130	-	-	28,130	-	Baa2	BBB
Corporate bonds	27,389	-	-	27,389	-	Baa2	BBB
Corporate bonds	29,737	-	-	29,737	-	Baa1	BBB
Corporate bonds	27,981	-	-	27,981	-	A2	A-
Corporate bonds	27,993	-	-	27,993	-	Baa2	BBB
Corporate bonds	27,418	-	-	-	27,418	Aaa	AAA
Corporate bonds	28,425	-	-	-	28,425	Baa1	BBB+
Corporate bonds	28,006	-	-	28,006	-	A3	A-
Corporate bonds	28,868	-	-	-	28,868	Baa2	BBB
Corporate bonds	27,699	-	-	27,699	-	A2	BBB+
Federal agencies	70,719	-	70,719	-	-	Aaa	AA+
U.S. Treasury	45,298	-	-	-	45,298	Aaa	AA+
U.S. Treasury	35,358	-	-	-	35,358	Aaa	No rating
U.S. Treasury	46,344	-	-	46,344	-	Aaa	No rating
U.S. Treasury	27,419	-	-	27,419	-	Aaa	No rating
U.S. Treasury	37,129	-	37,129	-	-	Aaa	No rating
U.S. Treasury	46,425	-	-	46,425	-	Aaa	No rating
U.S. Treasury	45,024	-	45,024	-	-	Aaa	No rating
U.S. Treasury	27,626	-	27,626	-	-	Aaa	No rating
U.S. Treasury	<u>46,000</u>	-	-	<u>46,000</u>	-	Aaa	No rating
	<u>\$ 901,918</u>	<u>\$ -</u>	<u>\$ 180,498</u>	<u>\$ 556,053</u>	<u>\$ 165,367</u>		

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC), Continued:

	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income securities:				
Corporate bonds	\$ 474,576	\$ -	\$ 474,576	\$ -
U.S. Treasury securities	356,623	356,623	-	-
Federal agencies	<u>70,719</u>	<u>-</u>	<u>70,719</u>	<u>-</u>
	901,918	356,623	545,295	-
Equity securities:				
U.S. equities	1,204,065	1,204,065	-	-
Non-U.S. equities	<u>496,318</u>	<u>496,318</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	2,602,301	\$ <u>2,057,006</u>	\$ <u>545,295</u>	\$ <u>-</u>
Investments measured at NAV:				
Exchange-traded funds	29,882			
Investments measured at amortized cost:				
Cash management account	<u>79,941</u>			
	\$ <u>2,712,124</u>			

Palau International Coral Reef Center (PICRC):

Cash management account	\$ 18,130
Exchange-traded and closed-end funds	<u>437,311</u>
	\$ <u>455,441</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.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

##### Discretely Presented Component Units, Continued

Palau International Coral Reef Center (PICRC), Continued

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.

##### 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.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau International Coral Reef Center (PICRC), Continued

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, 2020:

	<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>437,311</u>	\$ <u>437,311</u>	\$ _____	\$ _____
Total investments by fair value level	437,311	\$ <u>437,311</u>	\$ _____	\$ _____
Investments measured at amortized cost:				
Cash management account	<u>18,130</u>			
	\$ <u>455,441</u>			

Palau Housing Authority (PHA):

Equities	\$ 2,194,073
Fixed income	671,316
Money market funds	<u>23,603</u>
	\$ <u>2,888,992</u>



## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

##### Discretely Presented Component Units, Continued

Palau Housing Authority (PHA), Continued:

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 Directors' 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, 2020

### (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 Directors.
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, 2020

(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, 2020:

	<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>2,865,389</u>	\$ <u>2,865,389</u>	\$ _____	\$ _____
Total investments by fair value level	2,865,389	\$ <u>2,865,389</u>	\$ _____	\$ _____
Investments measured at amortized cost:				
Cash management account	<u>23,603</u>			
	\$ <u>2,888,992</u>			

Protected Areas Network Fund (PANF):

Equities	\$ 961,178
Money market funds	109,650
Fixed income	<u>474,778</u>
	\$ <u>1,545,606</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 Directors' 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, 2020

### (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, 2020

(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 manager's 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, 2020, investments in debt securities for the Protected Areas Network Fund were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Moody's Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 170,543	\$ -	\$ 81,848	\$ 88,695	\$ -	Aaa
U.S. Treasury bond	49,803	-	-	-	49,803	Aaa
Other U.S. Government obligation	37,723	-	37,723	-	-	Aaa
Corporate bonds	14,641	-	-	-	14,641	Aaa
Corporate bonds	43,182	-	-	43,182	-	A2
Corporate bonds	42,930	-	-	42,930	-	A3
Corporate bonds	29,861	-	-	15,202	14,659	Baa1
Corporate bonds	72,076	-	-	72,076	-	Baa2
Corporate bonds	14,019	-	-	14,019	-	Baa3
	<u>\$ 474,778</u>	<u>\$ -</u>	<u>\$ 119,571</u>	<u>\$ 276,104</u>	<u>\$ 79,103</u>	

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(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, 2020:

	<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	\$ 220,346	\$ 220,346	\$ -	\$ -
Other U.S. Government obligations	37,723	-	37,723	-
Corporate bonds	<u>216,709</u>	<u>-</u>	<u>216,709</u>	<u>-</u>
	474,778	220,346	254,432	-
Equity securities:				
Common stock	<u>961,178</u>	<u>961,178</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	1,435,956	\$ <u>1,181,524</u>	\$ <u>254,432</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Cash management account	<u>109,650</u>			
	\$ <u>1,545,606</u>			

(3) Receivables

Primary Government

Receivables as of September 30, 2020, 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	\$ 3,929,355	\$ -	\$ -	\$ -	\$ -	\$ 3,929,355
General	3,550,630	1,885,569	-	7,499,180	-	12,935,379
Federal agencies	-	9,916,561	-	-	-	9,916,561
Contributions	-	-	-	-	5,581,022	5,581,022
Accrued interest	-	-	-	-	231,528	231,528
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>552,920</u>	<u>552,920</u>
	7,479,985	11,802,130	-	7,499,180	6,365,470	33,146,765
for uncollectibles	<u>(3,218,616)</u>	<u>-</u>	<u>-</u>	<u>(7,471,964)</u>	<u>(2,373,570)</u>	<u>(13,064,150)</u>
Net receivables	\$ <u>4,261,369</u>	\$ <u>11,802,130</u>	\$ <u>-</u>	\$ <u>27,216</u>	\$ <u>3,991,900</u>	\$ <u>20,082,615</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, 2020

(3) Receivables, Continued

Discretely Presented Component Units

Receivables as of September 30, 2020, 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	\$ -	\$ 3,227,456	\$ 2,578,910	\$ 192,946	\$ -	\$ 4,796,666	\$ 66,537	\$ 1,176,000	\$ 12,038,515
Federal agencies	-	907,981	-	-	-	-	-	-	907,981
Loans	29,719,682	-	-	-	-	-	4,039,265	-	33,758,947
Accrued interest	365,496	-	-	-	-	-	9,589	-	375,085
Other	<u>65,606</u>	<u>867,465</u>	<u>(402)</u>	<u>444,688</u>	<u>74,199</u>	<u>44,474</u>	<u>4,943</u>	<u>-</u>	<u>1,500,973</u>
	30,150,784	5,002,902	2,578,508	637,634	74,199	4,841,140	4,120,334	1,176,000	48,581,501
Less allowance for uncollectible	<u>(3,344,356)</u>	<u>(2,916,656)</u>	<u>(1,242,217)</u>	<u>(17,431)</u>	<u>(5,180)</u>	<u>(2,111,223)</u>	<u>(109,806)</u>	<u>-</u>	<u>(9,746,869)</u>
	<u>\$ 26,806,428</u>	<u>\$ 2,086,246</u>	<u>\$ 1,336,291</u>	<u>\$ 620,203</u>	<u>\$ 69,019</u>	<u>\$ 2,729,917</u>	<u>\$ 4,010,528</u>	<u>\$ 1,176,000</u>	<u>\$ 38,834,632</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, 2020, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants	\$ 4,443,145
General	Nonmajor governmental funds	687
Grants	General	5,242,749
Nonmajor governmental funds	General	<u>10,384,641</u>
		<u>\$ 20,071,222</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, 2020

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

Receivables and payables between funds reflected as due to/from component units at September 30, 2020, are summarized as follows:

	Due From	Due To
General Fund:		
National Development Bank of Palau	\$ 4,670,716	\$ -
Palau District Housing Authority	4,571,429	-
Palau Public Utilities Corporation	21,287,480	-
Belau Submarine Cable Corporation	<u>20,244,149</u>	<u>-</u>
	<u>50,773,774</u>	<u>-</u>
Republic of Palau Social Security Retirement Fund:		
National Development Bank of Palau	<u>2,075,322</u>	<u>-</u>
	<u>\$ 52,849,096</u>	<u>\$ -</u>

The amount recorded as due from component units by the General Fund of \$50,773,774 does not equal the corresponding due to primary government of the discretely presented component units of \$2,108,446 due to the timing differences recorded by Public Utilities Corporation (PPUC) of \$1,800,000, and Palau Visitors Authority of \$308,446. The due from component units of \$50,773,774 represents loans due from the National Development Bank of Palau (NDBP), Palau District Housing Authority (PDHA), 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, 2020

(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 \$2,075,322 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>
2021	\$ 2,222,198	\$ 836,689	\$ 3,065,887
2022	3,243,856	795,647	4,039,503
2023	3,164,652	729,574	3,894,226
2024	3,181,635	677,216	3,858,851
2025	3,199,589	604,119	3,803,708
2026 - 2030	14,141,190	2,324,277	16,465,467
2031 - 2035	14,788,130	1,252,480	16,040,610
2036 - 2040	8,388,880	292,035	8,680,915
2041 - 2045	<u>511,966</u>	<u>13,793</u>	<u>525,759</u>
	<u>\$ 52,849,096</u>	<u>\$ 7,525,830</u>	<u>\$ 60,374,926</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 \$780,917 due to the timing differences recorded by Public Utilities Corporation (PPUC) of \$731,132, and Protected Areas Network of \$49,785.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(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, 2020, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
National Development Bank of Palau	\$ -	\$ 4,670,716
Belau Submarine Cable Corporation	-	20,244,149
Republic of Palau Social Security Retirement Fund	-	2,075,322
Palau District Housing Authority	-	4,571,429
Palau Public Utilities Corporation	731,132	23,087,480
Protected Areas Network Fund	49,785	-
Palau Visitors Authority	<u>-</u>	<u>308,446</u>
	<u>\$ 780,917</u>	<u>\$ 54,957,542</u>

(5) Capital Assets

Capital asset activities for the year ended September 30, 2020, are as follows:

Primary Government

	<u>Balance at October 1, 2019</u>	<u>Additions</u>	<u>Deletions and Transfers</u>	<u>Balance at September 30, 2020</u>
Depreciable capital assets:				
Building and other improvements	\$180,319,304	\$ -	\$ 310,000	\$180,629,304
Machinery and equipment	45,212,207	12,777,954	(985,136)	57,005,025
Vehicles	8,037,769	1,309,275	(311,565)	9,035,479
Infrastructure	<u>235,234,359</u>	<u>8,697,683</u>	<u>-</u>	<u>243,932,042</u>
Total capital assets being depreciated	<u>468,803,639</u>	<u>22,784,912</u>	<u>(986,701)</u>	<u>490,601,850</u>
Accumulated Depreciation:				
Building and other improvements	(104,961,525)	(6,853,743)	-	(111,815,268)
Machinery and equipment	(27,055,759)	(2,791,127)	985,136	(28,861,750)
Vehicles	(6,413,181)	(1,088,535)	311,565	(7,190,151)
Infrastructure	<u>(217,348,478)</u>	<u>(6,426,408)</u>	<u>-</u>	<u>(223,774,886)</u>
Total accumulated depreciation	<u>(355,778,943)</u>	<u>(17,159,813)</u>	<u>1,296,701</u>	<u>(371,642,055)</u>
Total depreciable capital assets, net	<u>113,024,696</u>	<u>5,625,099</u>	<u>310,000</u>	<u>118,959,795</u>
Non-depreciable capital assets:				
Land	3,899,403	-	-	3,899,403
Construction in progress	<u>4,923,361</u>	<u>4,407,534</u>	<u>(310,000)</u>	<u>9,020,895</u>
Total non-depreciable capital assets	<u>8,822,764</u>	<u>4,407,534</u>	<u>(310,000)</u>	<u>12,920,298</u>
Capital assets, net	<u>\$121,847,460</u>	<u>\$ 10,032,633</u>	<u>\$ -</u>	<u>\$131,880,093</u>

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

General government	\$ 594,825
Education	375,878
Health and welfare	1,400,029
Public safety	1,828,758
Cultural affairs and recreation	277,989
Transportation and commerce	11,891,973
Unallocated	<u>790,361</u>
Total depreciation expense	<u>\$ 17,159,813</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(5) Capital Assets, Continued

Fiduciary Funds

	Estimated Useful Lives	Balance at October 1, 2019	Additions	Transfers / Disposals	Balance at September 30, 2020
Depreciable capital assets:					
Office equipment and furniture	4 - 13 yrs	\$ 558,549	\$ 686,156	\$ -	\$ 1,244,705
Building and improvements	30 yrs	14,806	-	(1,306)	13,500
Vehicles	5 yrs	<u>131,214</u>	<u>2,966</u>	<u>-</u>	<u>134,180</u>
		704,569	689,122	(1,306)	1,392,385
Less accumulated depreciation		<u>(652,769)</u>	<u>(149,441)</u>	<u>-</u>	<u>( 802,210)</u>
		<u>\$ 51,800</u>	<u>\$ 539,681</u>	<u>\$ (1,306)</u>	<u>\$ 590,175</u>

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2019	Additions	Transfers / Disposals	Balance September 30, 2020
Depreciable capital assets:					
Buildings	3 - 30 yrs	\$ 24,393,675	\$ 1,093,997	\$ -	\$ 25,487,672
Utility plant	2 - 30 yrs	199,871,556	4,934,108	(269,923)	204,535,741
Machinery and equipment	2 - 20 yrs	14,654,653	214,933	(28,320)	14,841,266
Infrastructure	2 - 15 yrs	<u>3,432,294</u>	<u>6,510</u>	<u>(12,021)</u>	<u>3,426,783</u>
		242,352,178	6,249,548	(310,264)	248,291,462
Less accumulated depreciation		<u>(152,359,194)</u>	<u>(9,984,001)</u>	<u>628,296</u>	<u>(161,714,899)</u>
Total depreciable capital assets, net		89,992,984	(3,734,453)	318,032	86,576,563
Nondepreciable capital assets:					
Construction in progress		<u>23,848,159</u>	<u>6,099,011</u>	<u>(5,595,568)</u>	<u>24,351,602</u>
		<u>\$ 113,841,143</u>	<u>\$ 2,364,558</u>	<u>\$ (5,277,536)</u>	<u>\$ 110,928,165</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, 2020. The BSCC recognized amortization expense totaling \$266,661 for the year ended September 30, 2020.

(7) 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, 2020, the primary government had the following long-term debt outstanding and payable:

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(7) Long-Term Obligations, Continued

Primary Government, Continued

	<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	1.09%	November 1, 2025	\$ 7,584,864
Loan No. 2692-PAL (SF) Water Sector Improvement Project	October 6, 2011	1.50%	November 1, 2034	2,756,073
Loan No. 3060-PAL Koror-Airai Sanitation Project	March 28, 2014	1.58%	October 1, 2037	19,553,861
Loan No. 3061-PAL (SF) Koror-Airai Sanitation Project	March 28, 2014	1.50%	October 1, 2044	1,716,000
Loan No. 3346-PAL (BSCC) North Pacific Regional Connectivity Project	March 7, 2016	1.11%	December 1, 2040	13,341,068
Loan No. 3347-PAL (SF) North Pacific Regional Connectivity Project	March 7, 2016	2.00%	December 1, 2040	6,903,081
Loan No. 3725-PAL Disaster Resilience Program	October 17, 2018	0.80%	September 15, 2035	15,000,000
Loan No. 3955-PAL Health Exp & Live	August 3, 2020	2.00%	July 15, 2045	<u>20,000,000</u>
				<u>86,854,947</u>
Mega International Commercial Bank (MICB)				
Loan No. 070026 Palau International Airport Repaving Project	August 24, 2004	3.50%	October 28, 2024	2,057,178
Loan No. 025-105002 Agriculture and Aquaculture Development Project	March 31, 2016	1.27%	March 31, 2036	4,428,572
Loan No. 025-105003 Housing Project	April 8, 2016	2.24%	April 8, 2036	4,571,429
Loan No. 025-107001 Housing Loan	September 6, 2019	1.29%	September 6, 2039	<u>15,000,000</u>
				<u>26,057,179</u>
International Cooperation and Development Fund				
Loan No. PLW-01-2105 Women and Youth Entrepreneurs (NDBP)	March 30, 2020	4.00%	March 30, 2041	<u>3,000,000</u>
				<u>3,000,000</u>
				<u>\$115,912,126</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.

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.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

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

#### Primary Government, Continued

Asian Development Bank (ADB), Continued:

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.

Loan Number 3725 PAL in the amount of \$15,000,000 is for disaster resilience program to strengthen the management of disaster and climate risk.

Loan Number 3955 PAL COL in the amount of \$20,000,000 is for health expenditure and livelihood support program in relation to COVID-19 pandemic response.

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 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.

Loan Number 025-107001 in the amount of \$15,000,000 is to finance the housing development loan project.

The abovementioned MICB loans payable are uncollateralized.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

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

#### Primary Government, Continued

Mega International Commercial Bank (MICB), Continued:

The MICB 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, 2020

(7) Long-Term Obligations, Continued

Primary Government, Continued

International Cooperation and Development Fund (ICDF):

Loan Number PLW 01 2105 in the amount of \$5,000,000 is to be lent to National Development Bank of Palau to finance the implementation of women and youth entrepreneurs project.

The abovementioned ICDF loan payable is uncollateralized.

The ICDF loan is governed by General Conditions Applicable to Loan and Guarantee Agreements, and Covenant which set forth certain terms and conditions applicable to these loans as follows:

- (a) The borrower shall insure the imported goods to be financed out of the proceeds of the loan against hazards incident to the acquisitions, transportation and delivery thereof to the place of use or installation.
- (b) The borrower shall ensure that its obligations under this loan shall at all times rank at least pari passu with all its other present and future unsecured and unsubordinated indebtedness.

The borrower undertakes to cause NDBP to maintain its financial position as specified:

- (a) In relation to the entire loan portfolio of NDBP, the percentage of the loans which have been overdue for ninety days or more is less than eight percent (8%);
- (b) NDBP’s capital adequacy ratio(s) meets the levels required by applicable laws and regulations; and
- (c) NDBP’s return on assets ration is no less than one percent (1%).

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>
2021	\$ 4,421,512	\$ 1,645,034	\$ 6,066,546
2022	6,276,783	1,591,369	7,868,152
2023	7,002,728	1,495,145	8,497,873
2024	7,136,024	1,404,210	8,540,234
2025	7,054,462	1,293,182	8,347,644
2026-2030	32,246,250	5,075,841	37,322,091
2031-2035	28,897,939	2,929,849	31,827,788
2036-2040	17,523,372	2,451,859	19,975,231
2041-2045	<u>5,353,056</u>	<u>238,793</u>	<u>5,591,849</u>
	\$ <u>115,912,126</u>	\$ <u>18,125,282</u>	\$ <u>134,037,408</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(7) Long-Term Obligations, Continued

Primary Government, Continued

Changes in long-term debt of the primary government for the year ended September 30, 2020, are as follows:

	Balance October <u>1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2020</u>	Due Within <u>One Year</u>
Loans payable:					
ADB loans	\$ 49,653,865	\$ 39,451,181	\$ (2,250,101)	\$ 86,854,945	\$ (2,250,101)
MICB loans	13,228,592	15,000,000	(2,171,411)	26,057,181	(2,171,411)
ICDF loans	<u>-</u>	<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>
	<u>\$ 62,882,457</u>	<u>\$ 57,451,181</u>	<u>\$ (4,421,512)</u>	<u>\$ 115,912,126</u>	<u>\$ (4,421,512)</u>

Discretely Presented Component Units

As of September 30, 2020, 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	\$ 1,142,834
European Investment Bank (EIB)	December 5, 2006	3.70%	September 10, 2021	<u>435,163</u>
				1,577,997
Palau National Communications Corporation:				
Rural Utilities Services	1992	4.59%	October 2029	16,593,735
Palau Public Utilities Corporation:				
Mega International Commercial Bank	September 4, 2006	3.50%	December 11, 2026	2,600,000
National Development Bank of Palau	April 21, 2010	7.50%	April 21, 2025	<u>1,310,348</u>
				<u>3,910,348</u>
				<u>\$ 22,082,080</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;
- (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.



## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

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

#### Discretely Presented Component Units

National Development Bank of Palau (NDBP), Continued:

- (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;
- 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.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(7) Long-Term Obligations, Continued

Discretely Presented Component Units

National Development Bank of Palau (NDBP), Continued:

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 720,879	\$ 56,009	\$ 776,888
2022	285,716	29,999	315,715
2023	285,716	19,999	305,715
2024	<u>285,686</u>	<u>9,999</u>	<u>295,685</u>
	<u>\$ 1,577,997</u>	<u>\$ 116,006</u>	<u>\$ 1,694,003</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>
2021	\$ 2,357,943	\$ 702,635	\$ 3,060,578
2022	1,678,708	627,464	2,306,172
2023	1,757,402	548,770	2,306,172
2024	1,839,789	466,386	2,306,175
2025	1,926,034	380,141	2,306,175
2026 - 2029	<u>7,033,859</u>	<u>951,420</u>	<u>7,985,279</u>
	<u>\$ 16,593,735</u>	<u>\$ 3,676,816</u>	<u>\$ 20,270,551</u>

Palau Public Utilities Corporation (PPUC):

The loans are 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>
2021	\$ 625,791	\$ 189,276	\$ 815,067
2022	625,791	158,342	784,133
2023	625,791	127,407	753,198
2024	625,791	96,473	722,264
2025	625,791	65,539	691,33
2026 - 2027	<u>781,393</u>	<u>34,604</u>	<u>815,997</u>
	<u>\$ 3,910,348</u>	<u>\$ 671,641</u>	<u>\$ 4,581,989</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Palau Public Utilities Corporation (PPUC), Continued:

Changes in long-term debt of the discretely presented component units for the year ended September 30, 2020, are as follows:

	Balance October <u>1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2020</u>	Due Within <u>One Year</u>
Loans payable:					
NDBP	\$ 2,281,471	\$ -	\$ (703,474)	\$ 1,577,997	\$ 720,879
PNCC	17,371,069	-	(777,334)	16,593,735	2,357,943
PPUC	<u>4,536,139</u>	<u>-</u>	<u>(625,791)</u>	<u>3,910,348</u>	<u>625,791</u>
	<u>\$ 24,188,679</u>	<u>\$ -</u>	<u>\$ (2,106,599)</u>	<u>\$ 22,082,080</u>	<u>\$ 3,704,613</u>

(8) 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, 2020, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October <u>1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2020</u>	Due Within <u>One Year</u>
Other liabilities:					
Compensated absences	\$ 4,871,192	\$ 1,841,266	\$ (1,431,667)	\$ 5,280,791	\$ 2,308,196
Net pension liability	<u>156,146,459</u>	<u>34,067,474</u>	<u>-</u>	<u>190,213,933</u>	<u>-</u>
	<u>\$ 161,017,651</u>	<u>\$ 35,908,740</u>	<u>\$ (1,431,667)</u>	<u>\$ 195,494,724</u>	<u>\$ 2,308,196</u>

Changes in other long-term liabilities of the discretely presented component units for the year ended September 30, 2020, are as follows:

	Balance October <u>1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2020</u>	Due Within <u>One Year</u>
Other liabilities:					
Net pension liability	\$ 44,668,534	\$ 11,493,721	\$ -	\$ 56,162,255	\$ -
Due to primary government					
NDBP	5,111,818	-	(441,102)	4,670,716	434,863
PPUC	18,879,031	5,274,697	(1,066,248)	23,087,480	1,171,370
PHA	4,857,143	-	(285,714)	4,571,429	285,714
BSCC	19,370,542	873,607	-	20,244,149	-
Due to fiduciary funds					
NDBP	<u>2,402,787</u>	<u>-</u>	<u>(327,465)</u>	<u>2,075,322</u>	<u>337,251</u>
	<u>\$ 95,289,855</u>	<u>\$ 17,642,025</u>	<u>\$ (2,120,529)</u>	<u>\$ 110,811,351</u>	<u>\$ 2,229,198</u>

The above does not include \$308,446 of the Palau Visitors Authority as it is presented as a current liability in the discretely presented component units financial statements.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(9) Restricted Assets

Primary Government

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

Deposit accounts held by the Republic in a custodial capacity relating to court-ordered settlement.	\$ 2,032,080
Deposit accounts established for the purpose of accounting of funds held by the Republic in a custodial capacity relating to court-ordered settlements.	<u>2,653,491</u>
	\$ <u>4,685,571</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.	\$ 275,215,695
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>4,819,251</u>
	\$ <u>280,034,946</u>

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:

Deposit accounts for Housing Development Loan Project.	\$ 2,863,801
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Palau Community College:

Deposit accounts established for library fund and endowment fund.	1,983,704
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Palau National Communications Corporation:

Account established in accordance with Rural Utilities Service loan agreement for the purposes of a reserve account.	<u>250,146</u>
	\$ <u>5,097,651</u>

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

Palau Community College:

Investments held for endowment purposes.	\$ <u>5,977,405</u>
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**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(10) Pension Plan

A. General Information About the Pension Plan:

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

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

*Plan Membership:* As of October 1, 2019, the date of the most recent valuation, plan membership consisted of the following:

Inactive members currently receiving benefits	1,629
Inactive members entitled to benefits but not yet receiving them	1,252
Active members	<u>3,480</u>
	<u>6,361</u>

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

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

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:

<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.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

### (10) Pension Plan, Continued

#### A. General Information About the Pension Plan, Continued:

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.

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.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

The Republic's contributions to the Plan for the years ended September 30, 2020, 2019 and 2018 were \$2,370,938, \$2,216,549, and \$2,182,564, 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, 2019, for the same measurement date, using the following actuarial assumptions:

Valuation Date:	October 01, 2019																		
Actuarial Cost Method:	Entry age normal																		
Amortization Method:	Level dollar, open with remaining amortization period of 30 years																		
Asset Valuation Method:	Market Value Assets																		
Investment Income:	6.74% per year, net of investment expenses																		
Expenses:	\$300,000 each year.																		
Inflation:	2.5%																		
Interest on Member Contributions:	5.0% per year																		
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																		
Disability:	<table><thead><tr><th><u>Age</u></th><th><u>Disability</u></th></tr></thead><tbody><tr><td>25</td><td>0.21%</td></tr><tr><td>30</td><td>0.18%</td></tr><tr><td>35</td><td>0.25%</td></tr><tr><td>40</td><td>0.35%</td></tr><tr><td>45</td><td>0.50%</td></tr><tr><td>50</td><td>0.76%</td></tr><tr><td>55</td><td>1.43%</td></tr><tr><td>60</td><td>2.12%</td></tr></tbody></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																		



## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2020

#### (10) Pension Plan, Continued

##### A. General Information About the Pension Plan, Continued:

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, 2019, 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	10%	8.70%
US Small/Mid Cap Equity	10%	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	10%	8.33%
	<u>100%</u>	

*Discount Rate:* The discount rate used to measure the total pension liability was 2.85% at the current measurement date from 4.16% 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 2024 for the 2019 measurement date. For years after 2024, a discount rate of 2.81% 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 2.85% 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.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

*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 (2.85%) in measuring the 2020 Net Pension Liability.

	1% Decrease in Discount Rate <u>1.85%</u>	Current Discount Rate <u>2.85%</u>	1% Increase in Discount Rate <u>3.85%</u>
Net Pension Liability	<u>\$ 221,290,640</u>	<u>\$ 190,213,933</u>	<u>\$ 164,507,401</u>

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

*Pension Liability:* At September 30, 2020, the Republic reported a liability of \$190,213,933 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, 2020, the Republic's proportion was 61.66%.

*Pension Expense:* For the year ended September 30, 2020, the Republic recognized pension expense of \$12,015,632.

*Deferred Outflows and Inflows of Resources:* At September 30, 2020, the Republic reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 9,673,099	\$ 7,415,604
Change of assumptions	39,475,547	17,340,889
Net difference between projected and actual earnings on pension plan investments	529,007	451,521
Contributions subsequent to the measurement date	2,370,938	-
Changes in proportion and difference between Republic contributions and proportionate share of contributions	<u>7,761,485</u>	<u>10,984,981</u>
	<u>\$ 59,810,076</u>	<u>\$ 36,192,995</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2020 excluding contributions subsequent to the measurement date, will be recognized in pension expense as follows:

<u>Year Ended September 30</u>	
2021	\$ 4,620,425
2022	4,422,249
2023	4,207,884
2024	2,161,376
2025	2,043,085
Thereafter	<u>3,791,124</u>
	<u>\$ 21,246,143</u>

(11) Transfers In/Out

Operating Fund Transfers

Operating transfers in/out for each major fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2020, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund:		
Grants Fund	\$ 698,216	\$ 116,050
Other Governmental Funds	1,149,000	59,599
Compact Section 211(f) Fund	-	<u>15,000,000</u>
	<u>1,847,216</u>	<u>15,175,649</u>
Grants Fund:		
ROC Taiwan CIP Fund	106,614	-
U.S. Federal Grants	9,436	-
Road Maintenance Fund	-	1,200,000
Non-Lapsing Fund	-	154,327
General Fund	-	<u>543,889</u>
	<u>116,050</u>	<u>1,898,216</u>
Compact Section Fund:		
General Fund	<u>15,000,000</u>	<u>-</u>
Other governmental funds:		
Grants Fund	1,200,000	-
NonLapsing Fund	30,000	-
General Fund	<u>29,599</u>	<u>-</u>
	<u>\$ 18,222,865</u>	<u>\$ 18,222,865</u>

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

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

**(12) Fund Balances**

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

	<u>General</u>	<u>Grants</u>	Permanent <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	<u>Totals</u>
Fund balances:					
Nonspendable:					
Cash and cash equivalent	\$ -	2,032,080	\$ -	\$ -	2,032,080
UMDA investment	1,191,965	-	-	-	1,191,965
Loan receivable	50,773,774	-	-	-	50,773,774
Due from other funds	-	2,328,568	-	-	2,328,568
Prepayments	30,375	225,326	-	-	255,701
Permanent fund principal	-	-	280,034,946	-	280,034,946
	<u>51,996,114</u>	<u>4,585,974</u>	<u>280,034,946</u>	<u>-</u>	<u>336,617,034</u>
Restricted:					
Compact related	<u>9,540,435</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,540,435</u>
	<u>9,540,435</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,540,435</u>
Committed:					
Environmental protection	-	-	-	512,779	512,779
Hospital	-	-	-	3,899,750	3,899,750
Road maintenance	-	-	-	1,994,481	1,994,481
Publication law access unit	-	-	-	68,449	68,449
Forfeited property	-	-	-	147,491	147,491
Non-Communicable Diseases	-	-	-	2,531,161	2,531,161
Fisheries Protection	-	-	-	3,144,842	3,144,842
Other	-	-	-	79,072	79,072
	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,378,025</u>	<u>12,378,025</u>
Unassigned	<u>49,184,571</u>	<u>(309,644)</u>	<u>-</u>	<u>(687)</u>	<u>48,874,240</u>
	<u>\$ 110,721,120</u>	<u>\$ 4,276,330</u>	<u>\$ 280,034,946</u>	<u>\$ (687)</u>	<u>\$ 407,409,734</u>

**(13) Commitments and Contingencies**

**A. Sick Leave**

It is the policy of the Republic to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during work hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave at September 30, 2020, amounted to \$10,919,372.

**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, 2020, 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.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2020

### (13) Commitments and Contingencies, Continued

#### C. Federal Grants, Continued

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, 2020. 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 \$438,102,000 as of October 1, 2019. 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, 2020 to correct this funding deficiency. No recognition is given in the accompanying financial statements to the present value of liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

#### F. Litigation

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

#### G. Debt Commitments

Significant commitments of the primary government as of September 30, 2020, are as follows:

- a) Guaranteed bank debt of the National Development Bank of Palau (NDBP) with letters of guarantee. At September 30, 2020, NDBP had guaranteed debt totaling \$1,577,997.
- 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, 2020, NDBP had guaranteed debt associated with this loan totaling \$2,075,322.
- 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, 2020, PNCC had guaranteed debt totaling \$16,593,735.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2020

(13) Commitments and Contingencies, Continued

G. Debt Commitments, Continued

- d) Guaranteed bank debt of the Palau Public Utilities Corporation (PPUC) with a letter of guarantee. At September 30, 2020, PUC had guaranteed debt totaling \$2,600,000.
- e) Guaranteed a debt of PPUC in respect of a loan from NDBP with a letter of guarantee. At September 30, 2020, PUC had guaranteed debt associated with this loan totaling \$1,310,348.

H. Civil Service Pension Trust Fund

The Pension Fund’s actuarial valuation has determined that the Fund has a net pension liability of \$308,480,463 which would cause the Fund’s fiduciary net position to become negative in 2024.

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, 2020, the Republic had drawn down \$22,336,108 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, 2020, the Republic had drawn \$20,244,149 against these lines.

J. 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, 2020, 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>
2021	\$ 247,622
2022	247,622
2023	247,622
2024	247,622
2025	247,622
2026 – 2030	1,238,110
2031 – 2035	1,238,110
2036 – 2040	1,238,110
2041 - 2044	<u>993,235</u>
	\$ <u>5,945,675</u>

K. 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, 2020, will not have a material impact on the accompanying financial statements.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2020

#### (14) Joint Venture

Palau International Airport Corporation (PIAC), owned 49% by the Republic of Palau and 51% by Japan Airport Management Partners Company Limited (JAMP), was incorporated on August 11, 2017 under the laws of the Republic of Palau. As of September 30, 2020, PIAC authorized and issued 21,099,039 shares with \$1 par value.

PIAC is managed by a Board of Directors, 60% appointed by the JAMP and affiliates and 40% appointed by ROP.

As of December 31, 2020, PIAC Balance Sheet and Statement of Loss and Deficit are as follows:

Total assets	<u>\$41,449,791</u>
Total current liabilities	<u>2,835,040</u>
Total long-term debt	<u>19,312,787</u>
Total net shareholder's equity	<u>19,301,964</u>
Total liabilities and shareholder's equity	<u>\$41,449,791</u>
Revenues	\$ <u>598,797</u>
Operating expenses and other expenses	<u>1,628,252</u>
Deficit at beginning of year	<u>(767,620)</u>
Deficit at end of year	<u>\$(1,797,075)</u>

#### (15) Subsequent Events

On December 15, 2020, the Republic entered into a \$20,000,000 loan (Loan Number 4011 PAL) with the Asian Development Bank for a Pacific Disaster Resilience Program.

On May 17, 2021, the Republic entered into a \$10,000,000 loan (Loan numbers 4063 PAL and 4064 PAL COL) with the Asian Development Bank for Recovery through Improved Systems and Expenditures Support Program 1.

On September 29, 2021, Republic of Palau Public Law 11-11 was signed into law to comprehensively reform and modernize the tax code, and to implement a Palau Goods and Services Tax effective January 1, 2023.

On September 15, 2022, the Republic entered into a \$30,000,000 loan (Loan Number 4206 PAL) for a Recovery through Improved Systems and Expenditure Support Program 2.

COVID-19 Pandemic: Economic uncertainties have arisen as a result of travel restrictions and COVID-19 pandemic entry requirements. The Republic expects this matter to negatively impact its future financial results particularly, equity market investments and the unfunded liability; however, the related financial impact cannot be reasonably estimated at this time. Other financial impacts could occur though such potential impact is unknown.

On January 13, 2021, Belau Submarine Cable Corporation signed debt financing agreements with Japan Bank for International Cooperation (JBIC) and Export Finance Australia (EFA) for the construction of a second Palau submarine cable connection (the PC2 Project). The total amount of the debt funding arrangement for the PC2 project is \$16,846,414, with the remainder of the project funded by a combination of grant funding and equity.

In April 2021, the Republic was hit by a typhoon. Estimated damages to Palau Public Utilities Corporation's property are assessed at \$654,000.

Effective October 1, 2021, in accordance with CSPP Resolution 004-2021, the Civil Service Pension Plan Operation Plan will exclude future participants that are Non-Palauan citizens.

**REPUBLIC OF PALAU**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED SEPTEMBER 30, 2020**



## REPUBLIC OF PALAU

### Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund (Fund 1000) Year Ended September 30, 2020

	Original Budget	Final Budget	Actual - Budgetary Basis (see note 1)	Variance
<b>Revenues:</b>				
Local revenue	\$ 66,081,739	\$ 74,696,727	\$ 51,535,248	\$ (23,161,479)
Net change in the fair value of investments	-	-	153,383	153,383
Other	-	1,908,088	389,354	(1,518,734)
Total revenues	<u>66,081,739</u>	<u>76,604,815</u>	<u>52,077,985</u>	<u>(24,526,830)</u>
<b>Expenditures - budgetary basis:</b>				
Office of the President	1,200,725	1,549,405	1,482,366	67,039
Office of the Vice-President	628,149	658,149	601,775	56,374
Ministry of Finance	4,068,522	4,382,255	4,061,191	321,064
Ministry of State	4,485,443	4,433,443	4,109,264	324,179
Ministry of Community and Cultural Affairs	1,568,880	1,568,880	1,405,715	163,165
Ministry of Education	9,077,112	9,077,112	8,839,486	237,626
Ministry of Public Infrastructure, Industry and Commerce	7,717,595	7,701,595	6,298,553	1,403,042
Ministry of Justice	6,484,399	6,800,399	6,483,707	316,692
Ministry of Health	11,077,753	11,077,753	9,995,481	1,082,272
Ministry of Natural Resources, Environment and Tourism	1,742,383	1,692,383	1,563,444	128,939
Boards, Commissions and Authorities	1,237,838	1,496,838	1,121,741	375,097
Judicial Branch	3,192,000	3,192,000	3,189,657	2,343
Legislative Branch	6,132,726	6,132,726	5,786,935	345,791
State Block Grants	8,456,000	8,912,663	8,912,382	281
Independent Agencies	3,404,546	3,482,546	3,274,212	208,334
Other Agencies and Activities	1,838,150	1,888,150	1,788,344	99,806
Education Assistance	3,433,000	3,493,000	3,493,000	-
Other Appropriations	4,525,500	31,068,500	15,849,480	15,219,020
Total expenditures	<u>80,270,721</u>	<u>108,607,797</u>	<u>88,256,733</u>	<u>20,351,064</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(14,188,982)</u>	<u>(32,002,982)</u>	<u>(36,178,748)</u>	<u>(4,175,766)</u>
<b>Other financing sources (uses):</b>				
Loan proceeds	-	20,000,000	4,451,181	(15,548,819)
Operating transfers in	20,280,000	20,584,500	52,310,062	31,725,562
Operating transfers out	(6,815,239)	(9,305,739)	(9,946,942)	(641,203)
Total other financing sources (uses), net	<u>13,464,761</u>	<u>31,278,761</u>	<u>46,814,301</u>	<u>15,535,540</u>
	(724,221)	(724,221)	10,635,553	11,359,774
<b>Other changes:</b>				
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>724,221</u>	<u>724,221</u>	<u>337,003</u>	<u>(387,218)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,972,556</u>	<u>\$ 10,972,556</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, 2020

#### (1) Budgetary Information

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

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

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

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

#### (2) Reconciliation - GAAP and Budgetary Bases of Accounting

	<u>Net Change in Fund Balance</u>
General Fund (Fund 100100):	
Budgetary basis	\$ <u>10,972,556</u>
GASB 54 Funds included within the General Fund:	
PAN Fund (Fund 1010)	(59,307)
Financial Institutions Commission Fund (Fund 1030)	108,255
Non-Lapsing Fund (Fund 1140)	(6,332,811)
Receivable Fund (Fund 1160)	(10,000)
Debt Service Fund (Fund 5000)	13,008,234
Scholarship Fund (Fund 1100)	76,003
Compact Section 213 Fund (Fund 1150)	426,140
Local CIP Fund (Fund 4000)	(1,261,894)
DOI CIP Fund (Fund 430100)	<u>97,314</u>
	<u>6,051,934</u>
	\$ <u>17,024,490</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

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

	2020	2019	2018	2017	2016	2015
Pension Fund total net pension liability	\$ 308,480,463	\$ 250,868,784	\$ 259,395,005	\$ 249,453,960	\$ 215,546,176	\$ 204,281,232
The Republic's proportionate share of the net pension liability	\$ 190,213,933	\$ 156,146,459	\$ 162,657,269	\$ 157,823,499	\$ 137,096,288	\$ 129,957,796
The Republic's proportion of the net pension liability	61.66%	62.24%	62.71%	63.27%	63.60%	63.62%
The Republic's covered employee payroll**	\$ 36,849,200	\$ 36,515,250	\$ 36,294,800	\$ 33,508,473	\$ 30,846,144	\$ 23,572,912
The Republic's proportionate share of the net pension liability as a percentage of its covered employee payroll	516.20%	427.62%	448.16%	471.00%	444.45%	551.30%
Pension Fund fiduciary net position as a percentage of the total pension liability	8.26%	10.24%	10.18%	10.55%	11.54%	14.01%

\*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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 2,216,549	\$ 2,182,564	\$ 2,107,927	\$ 2,016,822	\$ 1,858,477	\$ 1,785,089
Contribution in relation to the contractually required contribution	<u>2,210,952</u>	<u>2,190,922</u>	<u>2,179,691</u>	<u>1,982,972</u>	<u>1,838,446</u>	<u>1,761,120</u>
Contribution excess(deficiency)	<u>\$ 5,597</u>	<u>\$ (8,358)</u>	<u>\$ (71,764)</u>	<u>\$ 33,850</u>	<u>\$ 20,031</u>	<u>\$ 23,969</u>
The Republic's covered-employee payroll**	<u>\$ 36,849,200</u>	<u>\$ 36,515,250</u>	<u>\$ 36,294,800</u>	<u>\$ 33,508,473</u>	<u>\$ 30,846,144</u>	<u>\$ 23,572,912</u>
Contribution as a percentage of covered-employee payroll	6.00%	6.00%	6.01%	5.92%	5.96%	7.47%

\*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, 2020**

**REPUBLIC OF PALAU**

GENERAL FUND

September 30, 2020

The general fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

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

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

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.

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

### Combining Balance Sheet September 30, 2020

	<b>1100</b>		<b>1150</b>	
	General	Scholarship	Compact Section 213	
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 70,682,043	\$ -	\$ -	
Investments	-	-	5,318,169	
Receivables, net:				
Taxes	3,929,355	-	-	
General	332,014	-	-	
Due from component units	50,773,774	-	-	
Due from other funds	55,055,795	-	-	
Advances	(26,634)	-	-	
Prepaid items	30,375	-	-	
Other assets	1,191,965	-	-	
Restricted assets:				
Cash and cash equivalents	2,653,491	-	-	
Total assets	\$ 184,622,178	\$ -	\$ 5,318,169	
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b><u>(DEFICIT)</u></b>				
Liabilities:				
Accounts payable	\$ 6,427,164	\$ 5,522	\$ -	
Contract payable	763,610	-	-	
Due to State governments	1,104,542	-	-	
Due to other funds	73,517,571	205,906	-	
Accrued payroll and others	2,984,049	-	-	
Other liabilities and accruals	642,885	-	-	
Income tax refunds	818,365	-	-	
Total liabilities	86,258,186	211,428	-	
Fund balances (deficit):				
Nonspendable	51,996,114	-	-	
Restricted	9,540,435	-	-	
Unassigned	36,827,443	(211,428)	5,318,169	
Total fund balances (deficit)	98,363,992	(211,428)	5,318,169	
Total liabilities and fund balances (deficit)	\$ 184,622,178	\$ -	\$ 5,318,169	

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

### Combining Balance Sheet, Continued September 30, 2020

	<b>4000</b>	<b>430100</b>		
	Local CIP	DOI CIP	Elimination	Total
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 70,682,043
Investments	-	-	-	5,318,169
Receivables, net:				
Taxes	-	-	-	3,929,355
General	-	-	-	332,014
Due from component units	-	-	-	50,773,774
Due from other funds	7,484,124	-	(58,096,087)	4,443,832
Advances	-	-	-	(26,634)
Prepaid items	-	-	-	30,375
Other assets	-	-	-	1,191,965
Restricted assets:				
Cash and cash equivalents	-	-	-	2,653,491
Total assets	<u>\$ 7,484,124</u>	<u>\$ -</u>	<u>\$ (58,096,087)</u>	<u>\$ 139,328,384</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b><u>(DEFICIT)</u></b>				
Liabilities:				
Accounts payable	\$ 3,703	\$ -	\$ -	\$ 6,436,389
Contract payable	230,034	-	-	993,644
Due to State governments	-	-	-	1,104,542
Due to other funds	-	-	(58,096,087)	15,627,390
Accrued payroll and others	-	-	-	2,984,049
Other liabilities and accruals	-	-	-	642,885
Income tax refunds	-	-	-	818,365
Total liabilities	<u>233,737</u>	<u>-</u>	<u>(58,096,087)</u>	<u>28,607,264</u>
Fund balances (deficit):				
Nonspendable	-	-	-	51,996,114
Restricted	-	-	-	9,540,435
Unassigned	7,250,387	-	-	49,184,571
Total fund balances (deficit)	<u>7,250,387</u>	<u>-</u>	<u>-</u>	<u>110,721,120</u>
Total liabilities and fund balances (deficit)	<u>\$ 7,484,124</u>	<u>\$ -</u>	<u>\$ (58,096,087)</u>	<u>\$ 139,328,384</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, 2020

	<b>1100</b>	<b>1150</b>	
	General	Scholarship	Compact Section 213
Taxes	\$ 40,963,991	\$ -	\$ -
Net change in the fair value of investments	153,383	-	454,536
Fees and charges	5,648,275	-	-
Licenses and permits	9,793,665	914,786	-
Other	824,681	24,180	-
<b>Total revenues</b>	<b>57,383,995</b>	<b>938,966</b>	<b>454,536</b>
<b>Expenditures:</b>			
<b>Current:</b>			
Judicial Branch	3,189,657	-	-
Legislative Branch	5,763,686	-	-
Office of the President	1,666,241	-	-
Office of the Vice-President	598,945	-	-
Ministry of Finance	4,139,940	-	-
Ministry of State	4,103,343	-	-
Ministry of Community and Cultural Affairs	1,473,316	-	-
Ministry of Education	8,868,909	-	-
Ministry of Public Infrastructure, Industry and Commerce	7,014,613	-	-
Ministry of Justice	6,799,542	-	-
Ministry of Health	11,186,900	-	-
Ministry of Natural Resources, Environment and Tourism	1,562,268	-	-
Boards, Commissions, and Authorities	1,242,317	-	-
State Block Grants	8,912,383	-	-
Independent Agencies	3,272,366	-	-
Contributions to:			
National Development Bank of Palau	5,739,306	-	-
COVID-19 Private Sector Relief Program	4,892,334	-	-
Social Security Retirement Fund	2,760,000	-	-
Civil Service Pension Trust Fund	4,945,651	-	-
Palau Housing Authority	2,720,259	-	-
PPUC Power Subsidy	1,800,000	-	-
PPUC AFPAC and Subsidy	2,100,000	-	-
State Governments	1,475,000	-	-
Others	805,895	-	-
Other Agencies and Activities	2,855,230	-	28,396
Education assistance	3,493,000	2,865,963	-
Capital projects	-	-	-
Debt service:			
Principal retirement	4,421,512	-	-
Interest	573,755	-	-
<b>Total expenditures</b>	<b>108,376,368</b>	<b>2,865,963</b>	<b>28,396</b>
Excess (deficiency) of revenues over (under) expenditures	<u>(50,992,373)</u>	<u>(1,926,997)</u>	<u>426,140</u>
<b>Other financing sources (uses):</b>			
Loan proceeds	57,451,181	-	-
Operating transfers in	59,053,602	2,003,000	-
Operating transfers out	<u>(47,825,483)</u>	<u>-</u>	<u>-</u>
<b>Total other financing sources (uses), net</b>	<b>68,679,300</b>	<b>2,003,000</b>	<b>-</b>
Net change in fund balances (deficit)	17,686,927	76,003	426,140
Fund balances (deficit) at beginning of year	80,677,065	(287,431)	4,892,029
<b>Fund balances (deficit) at end of year</b>	<b>\$ 98,363,992</b>	<b>\$ (211,428)</b>	<b>\$ 5,318,169</b>

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, 2020

	<b>4000</b>	<b>430100</b>		
	Local CIP	DOI CIP	Elimination	Total
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ 40,963,991
Net change in the fair value of investments	-	-	-	607,919
Fees and charges	-	-	-	5,648,275
Licenses and permits	-	-	-	10,708,451
Other	6,279	-	-	855,140
<b>Total revenues</b>	<b>6,279</b>	<b>-</b>	<b>-</b>	<b>58,783,776</b>
Expenditures:				
Current:				
Judicial Branch	-	-	-	3,189,657
Legislative Branch	-	-	-	5,763,686
Office of the President	-	-	-	1,666,241
Office of the Vice-President	-	-	-	598,945
Ministry of Finance	-	-	-	4,139,940
Ministry of State	-	-	-	4,103,343
Ministry of Community and Cultural Affairs	-	-	-	1,473,316
Ministry of Education	-	-	-	8,868,909
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	7,014,613
Ministry of Justice	-	-	-	6,799,542
Ministry of Health	-	-	-	11,186,900
Ministry of Natural Resources, Environment and Tourism	-	-	-	1,562,268
Boards, Commissions, and Authorities	-	-	-	1,242,317
State Block Grants	-	-	-	8,912,383
Independent Agencies	-	-	-	3,272,366
Contributions to:				
National Development Bank of Palau	-	-	-	5,739,306
COVID-19 Private Sector Relief Program	-	-	-	4,892,334
Social Security Retirement Fund	-	-	-	2,760,000
Civil Service Pension Trust Fund	-	-	-	4,945,651
Palau Housing Authority	-	-	-	2,720,259
PPUC Power Subsidy	-	-	-	1,800,000
PPUC AFPAC and Subsidy	-	-	-	2,100,000
State Governments	-	-	-	1,475,000
Others	-	-	-	805,895
Other Agencies and Activities	-	-	-	2,883,626
Education assistance	-	-	-	6,358,963
Capital projects	1,268,173	-	-	1,268,173
Debt service:				
Principal retirement	-	-	-	4,421,512
Interest	-	-	-	573,755
<b>Total expenditures</b>	<b>1,268,173</b>	<b>-</b>	<b>-</b>	<b>112,538,900</b>
Excess (deficiency) of revenues over (under) expenditures	<b>(1,261,894)</b>	<b>-</b>	<b>-</b>	<b>(53,755,124)</b>
Other financing sources (uses):				
Loan proceeds	-	-	-	57,451,181
Operating transfers in	-	97,314	(45,978,267)	15,175,649
Operating transfers out	-	-	45,978,267	(1,847,216)
<b>Total other financing sources     (uses), net</b>	<b>-</b>	<b>97,314</b>	<b>-</b>	<b>70,779,614</b>
Net change in fund balances (deficit)	<b>(1,261,894)</b>	<b>97,314</b>	<b>-</b>	<b>17,024,490</b>
Fund balances (deficit) at beginning of year	8,512,281	(97,314)	-	93,696,630
Fund balances (deficit) at end of year	<u>\$ 7,250,387</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,721,120</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

GENERAL FUND

Combining Schedule of Expenditures By Object Code  
Year Ended September 30, 2020

	<b>1100</b>		<b>1150</b>
	<u>General</u>	<u>Scholarship</u>	<u>Compact Section 213</u>
Expenditures:			
Salaries and wages	\$ 42,165,173	\$ 104,171	\$ -
Professional and contractual services	433,416	324	-
Repairs and maintenance	665,962	1,022	-
Rentals	1,159,713	20	-
Buildings	176,034	-	-
Construction	848,459	-	-
Communications and postage	1,271,601	7,086	-
Travel	811,122	17,585	-
Insurance	55,529	-	-
Advertising	62,664	882	-
Cleaning services	205,264	-	-
Supplies and materials	2,272,690	5,273	-
Medical drugs	364,306	-	-
Medical supplies	758,421	-	-
Petroleum products	991,824	622	-
Food stuffs	1,169,870	216	-
Books and library materials	47,382	-	-
Furniture and fixtures	9,941	-	-
Utilities	3,351,814	-	-
Equipment and machinery	240,530	-	-
Vehicles	331,624	-	-
Crafts	178	-	-
Computer software	9,471	-	-
Compensation	1,003,293	6,500	-
Allowance	3,736	-	-
Employee incentive awards	36,648	-	-
Training	12,487	-	-
Representation and entertainment	71,179	-	-
Dues, fees and registration	390,894	-	-
Donations	2,538,426	-	-
Freight	39,323	-	-
Payments of allotments/benefits	33,296,087	-	-
Grants	-	814,286	-
Student loans	-	1,706,360	-
Scholarships	-	201,616	-
Bank service fee	19,104	-	-
Investment management fees	-	-	28,396
Principal retirement	1,637,675	-	-
Interest charges	-	-	-
Miscellaneous	65,752	-	-
Total expenditures	<u>\$ 96,517,592</u>	<u>\$ 2,865,963</u>	<u>\$ 28,396</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

GENERAL FUND

Combining Schedule of Expenditures By Object Code, Continued  
Year Ended September 30, 2020

	<b>4000</b>	<b>430100</b>	<b>5000</b>	
	Local CIP	DOI CIP	Debt Service	Total
Expenditures:				
Salaries and wages	\$ 29,166	\$ -	\$ -	\$ 42,298,510
Professional and contractual services	56,667	-	15,221	505,628
Repairs and maintenance	-	-	-	666,984
Rentals	-	-	-	1,159,733
Buildings	792,153	-	-	968,187
Construction	293,268	-	-	1,141,727
Communications and postage	-	-	-	1,278,687
Travel	-	-	-	828,707
Insurance	-	-	-	55,529
Advertising	-	-	-	63,546
Cleaning services	76,713	-	-	281,977
Supplies and materials	-	-	-	2,277,963
Medical drugs	-	-	-	364,306
Medical supplies	-	-	-	758,421
Petroleum products	20,206	-	-	1,012,652
Food stuffs	-	-	-	1,170,086
Books and library materials	-	-	-	47,382
Furniture and fixtures	-	-	-	9,941
Utilities	-	-	-	3,351,814
Equipment and machinery	-	-	-	240,530
Vehicles	-	-	-	331,624
Crafts	-	-	-	178
Computer software	-	-	-	9,471
Board compensation	-	-	-	1,009,793
Allowance	-	-	-	3,736
Employee incentive awards	-	-	-	36,648
Training	-	-	-	12,487
Representation and entertainment	-	-	-	71,179
Dues, fees and registration	-	-	18,685	409,579
Donations	-	-	-	2,538,426
Freight	-	-	-	39,323
Payments of allotments/benefits	-	-	8,459,565	41,755,652
Grants	-	-	-	814,286
Student loans	-	-	-	1,706,360
Scholarships	-	-	-	201,616
Bank service fee	-	-	7,712	26,816
Investment management fees	-	-	-	28,396
Principal retirement	-	-	2,783,837	4,421,512
Interest charges	-	-	573,756	573,756
Miscellaneous	-	-	-	65,752
Total expenditures	<u>\$ 1,268,173</u>	<u>\$ -</u>	<u>\$ 11,858,776</u>	<u>\$ 112,538,900</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GENERAL FUND**

Schedule of Revenues  
Year Ended September 30, 2020

	<u>2020</u>	<u>2019</u>
Taxes:		
Gross receipts	\$ 11,847,390	\$ 14,110,933
Salary and wage	10,440,801	10,900,157
Alcohol and tobacco	10,565,663	9,094,825
Hotel occupancy	2,272,600	3,458,908
General import	2,659,351	2,589,261
Penalties, interest and delinquencies	1,009,455	679,734
Fuel excise	655,053	753,014
Beverage container tax	427,486	451,493
Fish export	157,463	584,544
Vessel cabin and foreign water vessel	104,893	136,167
Other	823,836	706,786
Total taxes	<u>40,963,991</u>	<u>43,465,822</u>
Licenses and permits:		
Fishing days fees	7,842,875	9,517,218
Foreign labor permits	1,390,315	1,442,548
Business licenses	308,241	296,739
Foreign investment permits and fees	438,731	546,878
Corporate filing fees	62,042	78,747
Other licenses and permits	666,247	348,450
Total licenses and permits	<u>10,708,451</u>	<u>12,230,580</u>
Fees and charges:		
Pristine Paradise Environmental Fee	2,219,517	3,715,574
Green fees	1,053,962	-
Airport fees and rentals	249,228	1,262,198
Postal service	356,358	330,659
Ship registry	779,011	1,198,258
Court fines and fees	149,176	135,037
Palau passport fees	57,625	108,371
Banking fees	213,576	121,515
Seaport fees	-	23,647
Other	569,822	382,004
Total fees and charges	<u>5,648,275</u>	<u>7,277,263</u>
Net change in the fair value of investments	<u>607,919</u>	<u>769,014</u>
Other:		
Indirect cost recoveries	216,681	127,992
Other	638,459	872,907
Total other	<u>855,140</u>	<u>1,000,899</u>
Total revenues	<u>\$ 58,783,776</u>	<u>\$ 64,743,578</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual - General Fund (Fund 1000 Only)

Year Ended September 30, 2020

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Local revenue	\$ 66,081,739	\$ 74,696,727	\$ 51,535,248	\$ (23,161,479)
Net change in the fair value of investments	-	-	153,383	153,383
Other	-	1,908,088	389,354	(1,518,734)
Total revenues	<u>66,081,739</u>	<u>76,604,815</u>	<u>52,077,985</u>	<u>(24,526,830)</u>
Expenditures - budgetary basis:				
Office of the President:				
President's Office	898,697	1,030,697	994,642	36,055
Official Expenses	30,005	30,005	29,514	491
Indirect Cost Recoveries	23	156,439	155,563	876
Administrative Overhead	-	60,264	58,050	2,214
Grants Coordinator Office	76,000	76,000	74,907	1,093
Council of Chiefs	151,000	151,000	124,690	26,310
Presidential Stipend	45,000	45,000	45,000	-
Total Office of the President	<u>1,200,725</u>	<u>1,549,405</u>	<u>1,482,366</u>	<u>67,039</u>
Office of the Vice-President:				
Vice-President's Office	399,038	399,038	361,624	37,414
National Emergency Management Office	229,111	259,111	240,151	18,960
Total Office of the Vice-President	<u>628,149</u>	<u>658,149</u>	<u>601,775</u>	<u>56,374</u>
Ministry of Finance:				
Office of the Minister	258,000	258,000	138,944	119,056
Administrative Overhead	750	54,483	51,576	2,907
Information System Support Service	241,947	241,947	226,556	15,391
Bureau of National Treasury	933,000	1,033,000	1,020,341	12,659
Bureau of Budget and Planning	642,882	737,882	728,999	8,883
Bureau of Public Service System	246,000	246,000	234,014	11,986
Workmen's Compensation	45,000	45,000	3,655	41,345
Bureau of Revenue and Taxation	700,943	675,943	605,705	70,238
Bureau of Customs	1,000,000	1,090,000	1,051,401	38,599
Total Ministry of Finance	<u>4,068,522</u>	<u>4,382,255</u>	<u>4,061,191</u>	<u>321,064</u>
Ministry of State:				
Office of the Minister	58,000	58,000	57,944	56
Consulate Office in Guam	129,470	129,470	121,421	8,049
Consulate Office in Saipan	52,795	52,795	45,470	7,325
Embassy in Washington D.C.	340,500	325,500	315,582	9,918
Embassy in Tokyo, Japan	793,669	745,669	716,006	29,663
Embassy in Taipei, Taiwan	203,556	203,556	174,198	29,358
Embassy in Manila, Philippines	151,000	151,000	146,601	4,399
United Nations Representative Office	389,000	389,000	387,677	1,323
Office of the Public Defender	363,000	363,000	340,465	22,535
Bureau of Trade and Foreign Affairs	471,303	471,303	464,907	6,396
Bureau of Domestic Affairs	316,150	366,150	363,278	2,872
Passport Office	115,000	110,000	77,023	32,977
International Organizations Obligations	345,000	311,000	198,600	112,400
Southwest Islands Field Trips	310,000	310,000	305,400	4,600
ROP Embassy for European Union/Climate Change	237,000	237,000	234,383	2,617
ROP Embassy in United Arab Emirates UAE	50,000	45,000	-	45,000
ROP Embassy in Suva, Fiji	100,000	100,000	97,082	2,918
ROP Consulate Office Hawaii	60,000	65,000	63,227	1,773
Total Ministry of State	<u>4,485,443</u>	<u>4,433,443</u>	<u>4,109,264</u>	<u>324,179</u>
Ministry of Community and Cultural Affairs:				
Office of the Minister	58,000	58,000	57,996	4
Bureau of National Archives	140,670	140,670	122,243	18,427
Bureau of Youth, Applied Arts and Career	373,000	373,000	367,377	5,623
Bureau of Aging and Gender	377,000	377,000	291,988	85,012
Sports Facilities Maintenance and Utilities	94,000	94,000	67,449	26,551
Bureau of Cultural and Historical Preservation	198,210	198,210	170,662	27,548
Olchotel Belau Fair	30,000	30,000	30,000	-
Palau Severely Disabled Assistance Fund	298,000	298,000	298,000	-
Total Ministry of Community and Cultural Affairs	<u>1,568,880</u>	<u>1,568,880</u>	<u>1,405,715</u>	<u>163,165</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 1000)

Year Ended September 30, 2020

	Original	Final	Actual	Variance
Ministry of Education:				
Office of the Minister	58,000	58,000	57,896	104
School Books, Supplies and Instructional Equipment	300,000	300,000	293,832	6,168
Bureau of Curriculum and Instruction	513,712	513,712	482,157	31,555
Bureau of School Administration	7,355,400	7,355,400	7,226,751	128,649
Food Services Program	850,000	850,000	778,850	71,150
<b>Total Ministry of Education</b>	<b>9,077,112</b>	<b>9,077,112</b>	<b>8,839,486</b>	<b>237,626</b>
Ministry of Public Infrastructure, Industry and Commerce:				
Office of the Minister	58,000	58,000	57,944	56
FAA, UNDP, & Other Match	665,000	600,000	86,078	513,922
Bureau of Commercial Development	354,010	346,010	310,862	35,148
Palau Small Business Development (UOG)	55,000	55,000	55,000	-
Bureau of Aviation	2,306,664	2,210,664	1,847,280	363,384
Bureau of Communication	-	150,000	132,093	17,907
Bureau of Lands and Survey	928,432	931,432	887,384	44,048
Bureau of Public Works	1,406,000	1,406,000	1,253,320	152,680
Palau Energy Administration	150,642	150,642	133,732	16,910
National Capitol Electricity/Maintenance	1,638,623	1,638,623	1,385,457	253,166
Capital Improvement Office Operations	155,224	155,224	149,403	5,821
<b>Total Ministry of Public Infrastructure, Industry and Commerce</b>	<b>7,717,595</b>	<b>7,701,595</b>	<b>6,298,553</b>	<b>1,403,042</b>
Ministry of Justice:				
Office of the Attorney General	634,000	656,000	604,393	51,607
Bureau of Immigration & Labor	1,062,000	1,094,000	962,175	131,825
Bureau of Public Safety	3,396,438	3,583,438	3,553,886	29,552
Bureau of Maritime Security & FWP	1,016,278	1,071,278	1,016,288	54,990
National Drug Task Force	250,683	270,683	256,054	14,629
Anti Human Trafficking Task Force	100,000	100,000	69,004	30,996
Juvenile Justice Program	25,000	25,000	21,907	3,093
<b>Total Ministry of Justice</b>	<b>6,484,399</b>	<b>6,800,399</b>	<b>6,483,707</b>	<b>316,692</b>
Ministry of Health:				
Office of the Minister	58,000	58,000	57,944	56
Bureau of Public Health	1,381,197	1,381,197	1,236,665	144,532
Health Administration	3,606,702	3,606,702	3,440,627	166,075
Manila Medical Referral	210,000	210,000	132,647	77,353
Hawaii Medical Referral	150,000	150,000	131,859	18,141
Taipei Medical Referral	153,264	153,264	143,044	10,220
Medical Supplies and Drugs	336,580	336,580	293,108	43,472
Hemodialysis	676,410	676,410	374,907	301,503
Hyperbaric Chamber	100,000	100,000	44,432	55,568
Bureau of Clinical Service	1,991,000	1,991,000	1,753,344	237,656
Bureau of Nursing	2,414,600	2,414,600	2,386,904	27,696
<b>Total Ministry of Health</b>	<b>11,077,753</b>	<b>11,077,753</b>	<b>9,995,481</b>	<b>1,082,272</b>
Ministry of Natural Resources, Environment and Tourism:				
Office of the Minister	58,000	58,000	57,960	40
Bureau of Marine Resources	702,244	652,244	567,814	84,430
Bureau of Agriculture	723,839	723,839	717,447	6,392
Bureau of Tourism	258,300	258,300	220,223	38,077
<b>Total Ministry of Natural Resources, Environment and Tourism</b>	<b>1,742,383</b>	<b>1,692,383</b>	<b>1,563,444</b>	<b>128,939</b>
<b>Total Executive Branch</b>	<b>48,050,961</b>	<b>48,941,374</b>	<b>44,840,982</b>	<b>4,100,392</b>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

Schedule of Revenues, Expenditures, and Changes in Fund Balance, Continued  
Budget and Actual - General Fund (Fund 1000)

Year Ended September 30, 2020

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Judicial Branch:				
Judiciary	3,192,000	3,192,000	3,189,657	2,343
Total Judicial Branch	<u>3,192,000</u>	<u>3,192,000</u>	<u>3,189,657</u>	<u>2,343</u>
Olbiil Era Kelulau:				
Senate	2,349,051	2,349,051	2,237,365	111,686
Senate Legal Counsel Office	216,266	216,266	186,856	29,410
House of Delegates	2,902,083	2,896,083	2,750,852	145,231
House Legal Counsel Office	215,052	221,052	220,318	734
Joint Staff	345,274	345,274	334,571	10,703
Association of Pacific Island Legislatures	15,000	15,000	10,962	4,038
Inter-Parliamentary Union	15,000	15,000	13,292	1,708
Palau Japan Parliamentary Friendship	35,000	35,000	-	35,000
Electricity for Koror Olbiil Era Kelulau Building	30,000	30,000	22,807	7,193
OEK Koror Office Renovation	-	-	-	-
Pacific Islands Development Bank	10,000	10,000	9,912	88
Total Legislative Branch	<u>6,132,726</u>	<u>6,132,726</u>	<u>5,786,935</u>	<u>345,791</u>
Boards, Commissions and Authorities:				
Foreign Investment Board	217,000	196,000	137,783	58,217
Palau Election Commission	258,000	563,000	382,752	180,248
COFA Board of Trustees	51,709	46,709	34,154	12,555
Palau Code Commission	65,000	59,000	35,189	23,811
Palau Public Lands Authority	122,657	127,657	126,363	1,294
Parole Board	30,225	34,225	33,353	872
Palau Housing Authority	150,000	150,000	150,000	-
Ethics Commission	51,000	51,000	35,410	15,590
Financial Institutions Commission	46,247	28,247	36,876	(8,629)
Financial Investigation Unit	187,000	187,000	140,429	46,571
Language Commission	59,000	54,000	9,432	44,568
Total Boards, Commissions and Authorities	<u>1,237,838</u>	<u>1,496,838</u>	<u>1,121,741</u>	<u>375,097</u>
State Block Grants	<u>8,456,000</u>	<u>8,912,663</u>	<u>8,912,382</u>	<u>281</u>
Independent Agencies:				
Office of the Public Auditor	537,000	615,000	484,702	130,298
Office of the Special Prosecutor	305,007	305,007	284,788	20,219
Palau Environmental Quality Protection Board	504,115	504,115	490,609	13,506
National Postal Service	445,000	445,000	424,922	20,078
Palau Visitors Authority	1,426,000	1,426,000	1,426,000	-
National Aviation Administration	187,424	187,424	163,191	24,233
Total Independent Agencies	<u>3,404,546</u>	<u>3,482,546</u>	<u>3,274,212</u>	<u>208,334</u>
Other Agencies and Activities:				
Palau National Museum	262,150	262,150	242,344	19,806
Micronesia Legal Services	125,000	125,000	125,000	-
Palau Community Action Agency	304,000	354,000	354,000	-
Head Start Program	126,000	126,000	126,000	-
Palau Red Cross	10,000	10,000	10,000	-
WIA Grant Contribution	94,000	94,000	94,000	-
Civic Action Team Share	250,000	250,000	250,000	-
PNOC and Sports Organizations	177,000	177,000	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	70,000	70,000	-	70,000
Total Other Agencies and Activities	<u>1,838,150</u>	<u>1,888,150</u>	<u>1,788,344</u>	<u>99,806</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 1000)

Year Ended September 30, 2020

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Education Assistance:				
Palau Community College Operations	2,338,000	2,398,000	2,398,000	-
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 Navigation Program	50,000	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>3,433,000</u>	<u>3,493,000</u>	<u>3,493,000</u>	<u>-</u>
Other Appropriations:				
Palau Public Utilities Corporation (PPUC) AFPAC	500,000	500,000	500,000	-
PPUC Water and Wastewater Subsidy	800,000	1,600,000	1,600,000	-
Ngchesar State Government	70,000	70,000	70,000	-
Old Age Center Renovation	75,000	75,000	50,860	24,140
Palau Major League	30,000	30,000	-	30,000
Teacher Certification	50,500	50,500	-	50,500
Civil Service Pension Plan	3,000,000	3,813,575	3,813,575	-
26th Mechesil Belau Conference	-	50,000	50,000	-
PPUC Power Subsidy	-	1,800,000	1,800,000	-
Official Copy of the Constitution of the Republic of Palau	-	25,000	25,000	-
COVID-19 Private Sector Relief Program	-	20,000,000	4,892,334	15,107,666
Dolphins Pacific	-	50,000	50,000	-
Palau Conservation Society	-	50,000	50,000	-
Ebnil Society	-	50,000	50,000	-
Stranded Citizens	-	180,000	173,286	6,714
State Governments	-	800,000	800,000	-
Non-Public Schools	-	236,750	236,750	-
Palau Red Cross Society	-	50,000	50,000	-
Loan Repayment	-	1,637,675	1,637,675	-
Other	-	-	-	-
Total Other Appropriations	<u>4,525,500</u>	<u>31,068,500</u>	<u>15,849,480</u>	<u>15,219,020</u>
Total expenditures	<u>80,270,721</u>	<u>108,607,797</u>	<u>88,256,733</u>	<u>20,351,064</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(14,188,982)</u>	<u>(32,002,982)</u>	<u>(36,178,748)</u>	<u>(4,175,766)</u>
Other financing sources (uses):				
Loan proceeds	-	20,000,000	4,451,181	(15,548,819)
Operating transfers in:				
Compact Section 211(f) Trust Fund	15,000,000	15,000,000	15,000,000	-
Compact Direct Economic Assistance Fund	5,280,000	5,280,000	5,279,909	(91)
Debt Service Fund	-	-	31,000,000	31,000,000
Non Lapsing Fund	-	-	696,054	696,054
PAN Fund	-	304,500	304,500	-
Operator License Fund	-	-	29,599	29,599
Total other financing sources	<u>20,280,000</u>	<u>40,584,500</u>	<u>56,761,243</u>	<u>16,176,743</u>
Operating transfers out:				
National Scholarship Fund	(2,003,000)	(2,003,000)	(2,003,000)	-
Debt Service Fund	(2,622,239)	(2,622,239)	(2,622,239)	-
Nonlapsing Fund	(2,190,000)	(3,100,000)	(3,100,000)	-
Hospital Trust Fund	-	(1,149,000)	(1,149,000)	-
PAN Fund	-	(431,500)	(431,500)	-
U.S. Federal Grants Fund	-	-	(543,889)	(543,889)
Other Non U.S. Grants Fund	-	-	(97,314)	(97,314)
Total other financing uses	<u>(6,815,239)</u>	<u>(9,305,739)</u>	<u>(9,946,942)</u>	<u>(641,203)</u>
Total other financing sources (uses), net	<u>13,464,761</u>	<u>31,278,761</u>	<u>46,814,301</u>	<u>15,535,540</u>
	(724,221)	(724,221)	10,635,553	11,359,774
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>724,221</u>	<u>724,221</u>	<u>337,003</u>	<u>(387,218)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,972,556</u>	<u>\$ 10,972,556</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

GRANTS FUND

September 30, 2020

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, 2020

	<b>3000</b>	<b>3010</b>	<b>3030</b>	<b>3040</b>	<b>3050</b>	<b>4010</b>	<b>4020</b>	<b>4030</b>	<b>4040</b>	
	COFA S322 Defense Sites Grants	COFA S432(2A) Infrastructure Maintenance	U.S. Federal Grants	ROC Grants	Other Non U.S. Grants	U.S. Federal Capital Projects	ROC Capital Projects	Other Non U.S. Capital Projects	COFA S432(5) Infrastructure Grants	Total
<b>ASSETS</b>										
Receivables, net:										
General	\$ -	\$ -	\$ 262	\$ 479,545	\$ -	\$ -	\$ 1,405,762	\$ -	\$ -	\$ 1,885,569
Federal agencies	-	281,058	5,668,223	-	-	234,039	-	-	3,733,241	9,916,561
Due from other funds	1,128,568	1,200,000	-	-	2,657,097	14,961	-	242,123	-	5,242,749
Due from Component Unit	-	-	554,444	-	-	-	-	-	-	554,444
Advances	-	-	-	(5,725)	(2,528)	-	-	-	-	(8,253)
Prepaid items	-	-	41,767	6,122	174,890	-	2,547	-	-	225,326
Restricted assets:										
Cash and cash equivalents	2,032,080	-	-	-	-	-	-	-	-	2,032,080
Total assets	<u>\$ 3,160,648</u>	<u>\$ 1,481,058</u>	<u>\$ 6,264,696</u>	<u>\$ 479,942</u>	<u>\$ 2,829,459</u>	<u>\$ 249,000</u>	<u>\$ 1,408,309</u>	<u>\$ 242,123</u>	<u>\$ 3,733,241</u>	<u>\$ 19,848,476</u>
<b>LIABILITIES AND FUND BALANCES</b>										
Liabilities:										
Accounts payable	\$ -	\$ -	\$ 254,345	\$ 97,175	\$ 95,585	\$ -	\$ 3,355	\$ -	\$ 151	\$ 450,611
Contracts payable	-	365,376	218,454	2,721	54,274	249,000	1,198,103	56,562	849,082	2,993,572
Unearned revenues	-	-	4,819,657	-	2,679,600	-	-	185,561	-	7,684,818
Due to other funds	-	-	972,240	380,046	-	-	206,851	-	2,884,008	4,443,145
Total liabilities	<u>-</u>	<u>365,376</u>	<u>6,264,696</u>	<u>479,942</u>	<u>2,829,459</u>	<u>249,000</u>	<u>1,408,309</u>	<u>242,123</u>	<u>3,733,241</u>	<u>15,572,146</u>
Fund balances:										
Restricted	3,160,648	1,200,000	-	-	-	-	-	-	-	4,360,648
Nonspendable	-	-	41,767	6,122	174,890	-	2,547	-	-	225,326
Unassigned	-	(84,318)	(41,767)	(6,122)	(174,890)	-	(2,547)	-	-	(309,644)
Total fund balances	<u>3,160,648</u>	<u>1,115,682</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,276,330</u>
Total liabilities and fund balances	<u>\$ 3,160,648</u>	<u>\$ 1,481,058</u>	<u>\$ 6,264,696</u>	<u>\$ 479,942</u>	<u>\$ 2,829,459</u>	<u>\$ 249,000</u>	<u>\$ 1,408,309</u>	<u>\$ 242,123</u>	<u>\$ 3,733,241</u>	<u>\$ 19,848,476</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, 2020

	<b>3000</b>	<b>3010</b>	<b>3030</b>	<b>3040</b>	<b>3050</b>	<b>4010</b>	<b>4020</b>	<b>4030</b>	<b>4040</b>		
	COFA S322 Defense Sites Grants	COFA S432(2A) Infrastructure Maintenance	U.S. Federal Grants	ROC Grants	Other Non U.S. Grants	U.S. Federal Capital Projects	ROC Capital Projects	Other Non U.S. Capital Projects	COFA S432(5) Infrastructure Grants	Elimination	Total
<b>Revenues:</b>											
Federal contributions	\$ -	\$ 281,058	\$ 20,483,190	\$ -	\$ -	\$ 55,161	\$ -	\$ -	\$ 8,599,226	\$ -	\$ 29,418,635
Other grants	-	-	-	1,682,285	3,404,145	-	6,308,971	72,893	-	-	11,468,294
<b>Total revenues</b>	<u>-</u>	<u>281,058</u>	<u>20,483,190</u>	<u>1,682,285</u>	<u>3,404,145</u>	<u>55,161</u>	<u>6,308,971</u>	<u>72,893</u>	<u>8,599,226</u>	<u>-</u>	<u>40,886,929</u>
<b>Expenditures:</b>											
<b>Current:</b>											
Office of the President	-	-	-	699,145	829,297	-	17,562	-	-	-	1,546,004
Office of the Vice-President	-	-	-	-	5,488	-	-	-	-	-	5,488
Ministry of Finance	-	-	208,528	123,565	573,717	-	344,000	-	1,587,404	-	2,837,214
Ministry of State	-	-	-	-	365	-	-	-	-	-	365
Ministry of Community and Cultural Affairs	-	-	-	796,464	293,132	-	-	-	-	-	1,089,596
Ministry of Education	-	-	2,085,501	-	14,608	-	-	-	-	-	2,100,109
Ministry of Public Infrastructure, Industry and Commerce	-	365,376	641,155	33,363	928,952	599,050	525,488	-	5,695,433	-	8,788,817
Ministry of Justice	200,000	-	325,784	-	472,023	-	433,222	72,893	-	-	1,503,922
Ministry of Health	-	-	6,952,521	-	160,847	-	-	-	-	-	7,113,368
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	27,105	-	-	-	-	-	27,105
Boards, Commissions, and Authorities	-	-	83,042	-	113,611	-	-	-	-	-	196,653
Financial and Compliance Audit	-	-	249,790	-	-	-	-	-	-	-	249,790
State Governments	-	-	-	14,748	-	-	5,036,412	-	1,316,389	-	6,367,549
Other	-	-	9,942,290	-	-	-	-	-	-	-	9,942,290
<b>Total expenditures</b>	<u>200,000</u>	<u>365,376</u>	<u>20,488,611</u>	<u>1,667,285</u>	<u>3,419,145</u>	<u>599,050</u>	<u>6,356,684</u>	<u>72,893</u>	<u>8,599,226</u>	<u>-</u>	<u>41,768,270</u>
Excess (deficiency) of revenues over (under) expenditures	(200,000)	(84,318)	(5,421)	15,000	(15,000)	(543,889)	(47,713)	-	-	-	(881,341)
<b>Other financing sources (uses):</b>											
Operating transfers in	-	1,200,000	-	-	15,000	543,889	154,327	-	-	(15,000)	1,898,216
Operating transfers out	-	-	(9,436)	(15,000)	-	-	(106,614)	-	-	15,000	(116,050)
<b>Total other financing sources (uses), net</b>	<u>-</u>	<u>1,200,000</u>	<u>(9,436)</u>	<u>(15,000)</u>	<u>15,000</u>	<u>543,889</u>	<u>47,713</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,782,166</u>
<b>Net change in fund balances</b>	<u>(200,000)</u>	<u>1,115,682</u>	<u>(14,857)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>900,825</u>
Fund balances at beginning of year	3,360,648	-	14,857	-	-	-	-	-	-	-	3,375,505
<b>Fund balances at end of year</b>	<u>\$ 3,160,648</u>	<u>\$ 1,115,682</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,276,330</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GRANTS FUND**

Combining Schedule of Expenditures By Object  
Year Ended September 30, 2020

	<b>3000</b>	<b>3010</b>	<b>3030</b>	<b>3040</b>	<b>3050</b>	<b>4010</b>	<b>4020</b>	<b>4030</b>	<b>4040</b>	
	COFA S322 Defense Sites Grants	COFA S432(2A) Infrastructure Maintenance	U.S. Federal Grants	ROC Grants	Other Non U.S. Grants	U.S. Federal Capital Projects	ROC Capital Projects	Other Non U.S. Capital Projects	COFA S432(5) Infrastructure Grants	Total
Expenditures:										
Salaries and wages	\$ -	\$ -	\$ 4,120,911	\$ 516,938	\$ 1,332,871	\$ 663	\$ 277,548	\$ -	\$ 42,642	\$ 6,291,573
Professional and contractual services	-	-	1,184,666	96,236	750,232	414,182	1,116,667	-	1,521,423	5,083,406
Repairs and maintenance	-	-	44,722	8,848	30,330	-	46,760	-	-	130,660
Rentals	200,000	-	429,727	48,671	137,038	-	2,825	-	-	818,261
Construction	-	365,376	284,443	-	56,293	-	4,859,319	72,893	6,968,155	12,606,479
Insurance	-	-	900	-	-	-	-	-	-	900
Advertising	-	-	50,307	23,770	5,905	-	680	-	-	80,662
Cleaning service	-	-	7,600	150	-	-	-	-	-	7,750
Travel	-	-	683,640	224,459	153,714	-	-	-	-	1,061,813
Communications and postage	-	-	152,291	14,900	26,390	-	-	-	-	193,581
Supplies and materials	-	-	1,572,331	148,286	283,382	-	12,672	-	25,388	2,042,059
Medical supplies	-	-	169,193	-	54,570	-	-	-	-	223,763
Medical drugs	-	-	11,904	-	-	-	-	-	-	11,904
Petroleum products	-	-	120,019	35,715	53,655	-	8,358	-	292	218,039
Food stuffs	-	-	3,588	111,200	150,374	-	5,519	-	886	271,567
Utilities	-	-	74,586	1,571	8,481	-	-	-	200	84,838
Equipment & Machinery	-	-	264,485	82,567	39,235	-	14,716	-	-	401,003
Vehicles	-	-	227,090	6,800	8,103	184,205	9,950	-	29,400	465,548
Computer software	-	-	31,120	-	-	-	-	-	10,694	41,814
Administrative costs	-	-	113,997	-	-	-	-	-	-	113,997
Dues, fees and registration	-	-	60,519	1,300	18,764	-	-	-	146	80,729
Training	-	-	200,146	-	27,165	-	-	-	-	227,311
Conference	-	-	12,746	-	5,000	-	-	-	-	17,746
Payments of allotments/benefits	-	-	10,088,976	23,104	8,000	-	-	-	-	10,120,080
Freight	-	-	166,560	-	327	-	-	-	-	166,887
Compensation	-	-	252,997	30,253	31,525	-	-	-	-	314,775
Employee incentive awards	-	-	2,900	500	-	-	-	-	-	3,400
Indirect costs	-	-	156,247	-	169	-	-	-	-	156,416
Donations	-	-	-	282,942	233,097	-	1,670	-	-	517,709
Representation and entertainment	-	-	-	9,075	850	-	-	-	-	9,925
Miscellaneous	-	-	-	-	3,675	-	-	-	-	3,675
Total expenditures	\$ 200,000	\$ 365,376	\$ 20,488,611	\$ 1,667,285	\$ 3,419,145	\$ 599,050	\$ 6,356,684	\$ 72,893	\$ 8,599,226	\$ 41,768,270

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

Permanent Funds

Combining Balance Sheet  
September 30, 2020

	<b>6000</b>	<b>3020</b>	
	<u>Compact Section 211(f)</u>	<u>Infrastructure Maintenance</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Restricted assets:			
Investments	<u>\$ 275,215,695</u>	<u>4,819,251</u>	<u>\$ 280,034,946</u>
	<u>\$ 275,215,695</u>	<u>\$ 4,819,251</u>	<u>\$ 280,034,946</u>
<b><u>FUND BALANCES</u></b>			
Nonspendable	<u>\$ 275,215,695</u>	<u>\$ 4,819,251</u>	<u>\$ 280,034,946</u>
Total fund balances	<u>\$ 275,215,695</u>	<u>\$ 4,819,251</u>	<u>\$ 280,034,946</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, 2020

	6000	3020	
	Compact Section 211(f)	Infrastructure Maintenance	Total
Revenues:			
Net change in the fair value of investments	\$ 9,778,163	\$ 414,605	\$ 10,192,768
Total revenues	<u>9,778,163</u>	<u>414,605</u>	<u>10,192,768</u>
Expenditures:			
Investment management fees	<u>1,503,347</u>	<u>25,794</u>	<u>1,529,141</u>
Total expenditures	<u>1,503,347</u>	<u>25,794</u>	<u>1,529,141</u>
Excess of revenues over expenditures	<u>8,274,816</u>	<u>388,811</u>	<u>8,663,627</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	(6,725,184)	388,811	(6,336,373)
Fund balances at beginning of year	<u>281,940,879</u>	<u>4,430,440</u>	<u>286,371,319</u>
Fund balances at end of year	<u>\$ 275,215,695</u>	<u>\$ 4,819,251</u>	<u>\$ 280,034,946</u>

See accompanying notes to basic financial statements.

## REPUBLIC OF PALAU

### NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2020

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, 2020

	1020	1040	1050	1060	1070	1200	1080	1090	1110	1120	1130	1210	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	
<b>ASSETS</b>													
Receivables, net:													
General	\$ -	\$ -	\$ 26,796	\$ -	\$ -	\$ -	\$ -	440	\$ (20)	\$ -	\$ -	\$ -	\$ 27,216
Due from other funds	-	144,951	4,308,627	2,534,892	69,081	476	14,859	741,373	516,382	1,985,455	7,309	61,236	10,384,641
Investments	-	-	-	-	-	-	-	2,457,267	-	-	-	-	2,457,267
Prepaid items	-	2,600	-	-	-	-	-	-	-	9,425	-	-	12,025
Total assets	<u>\$ -</u>	<u>\$ 147,551</u>	<u>\$ 4,335,423</u>	<u>\$ 2,534,892</u>	<u>\$ 69,081</u>	<u>\$ 476</u>	<u>\$ 14,859</u>	<u>\$ 3,199,080</u>	<u>\$ 516,362</u>	<u>\$ 1,994,880</u>	<u>\$ 7,309</u>	<u>\$ 61,236</u>	<u>\$ 12,881,149</u>
<b>LIABILITIES AND FUND BALANCES</b>													
<b>(DEFICIT)</b>													
Liabilities:													
Accounts payable	\$ -	\$ 60	\$ 435,673	\$ 3,731	\$ 632	\$ -	\$ 4,758	\$ 54,238	\$ 3,583	\$ 399	\$ 50	\$ -	\$ 503,124
Due to other funds	687	-	-	-	-	-	-	-	-	-	-	-	687
Total liabilities	<u>687</u>	<u>60</u>	<u>435,673</u>	<u>3,731</u>	<u>632</u>	<u>-</u>	<u>4,758</u>	<u>54,238</u>	<u>3,583</u>	<u>399</u>	<u>50</u>	<u>-</u>	<u>503,811</u>
Fund balances (deficit):													
Committed	(687)	147,491	3,899,750	2,531,161	68,449	476	10,101	3,144,842	512,779	1,994,481	7,259	61,236	12,377,338
Total fund balances (deficit)	<u>(687)</u>	<u>147,491</u>	<u>3,899,750</u>	<u>2,531,161</u>	<u>68,449</u>	<u>476</u>	<u>10,101</u>	<u>3,144,842</u>	<u>512,779</u>	<u>1,994,481</u>	<u>7,259</u>	<u>61,236</u>	<u>12,377,338</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 147,551</u>	<u>\$ 4,335,423</u>	<u>\$ 2,534,892</u>	<u>\$ 69,081</u>	<u>\$ 476</u>	<u>\$ 14,859</u>	<u>\$ 3,199,080</u>	<u>\$ 516,362</u>	<u>\$ 1,994,880</u>	<u>\$ 7,309</u>	<u>\$ 61,236</u>	<u>\$ 12,881,149</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures by Function,  
and Changes in Fund Balances (Deficit)  
Year Ended September 30, 2020

	<b>1020</b>	<b>1040</b>	<b>1050</b>	<b>1060</b>	<b>1070</b>	<b>1200</b>	<b>1080</b>	<b>1090</b>	<b>1110</b>	<b>1120</b>	<b>1130</b>	<b>1210</b>		
	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	Elimination	Total
<b>Revenues:</b>														
Taxes	\$ -	\$ -	\$ -	\$ 825,993	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 807,548	\$ -	\$ -	\$ -	\$ 1,633,541
Fees and charges	935	85,266	2,157,732	-	9,100	-	59,780	363,720	29,485	2,803	21,488	-	-	2,730,309
Net change in the fair value of investments	-	-	-	-	-	-	-	186,723	-	-	-	-	-	186,723
Licenses and permits	-	-	40,775	-	-	-	-	-	-	-	-	-	-	40,775
<b>Total revenues</b>	<b>935</b>	<b>85,266</b>	<b>2,198,507</b>	<b>825,993</b>	<b>9,100</b>	<b>-</b>	<b>59,780</b>	<b>550,443</b>	<b>29,485</b>	<b>810,351</b>	<b>21,488</b>	<b>-</b>	<b>-</b>	<b>4,591,348</b>
<b>Expenditures:</b>														
<b>Current:</b>														
Ministry of State	-	-	-	-	17,532	-	-	-	-	-	-	-	-	17,532
Ministry of Justice	-	30,312	-	-	-	-	30,181	-	-	-	-	-	-	60,493
Ministry of Health	-	-	2,511,346	24,548	-	-	-	-	-	-	-	-	-	2,535,894
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	-	-	-	-	-	19,387	-	-	19,387
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	-	-	-	-	-	230,939	-	-	-	230,939
Independent Agencies	-	-	-	-	-	-	-	177,263	60,195	-	-	-	-	237,458
<b>Total expenditures</b>	<b>-</b>	<b>30,312</b>	<b>2,511,346</b>	<b>24,548</b>	<b>17,532</b>	<b>-</b>	<b>30,181</b>	<b>177,263</b>	<b>60,195</b>	<b>230,939</b>	<b>19,387</b>	<b>-</b>	<b>-</b>	<b>3,101,703</b>
Excess (deficiency) of revenues over (under) expenditures	935	54,954	(312,839)	801,445	(8,432)	-	29,599	373,180	(30,710)	579,412	2,101	-	-	1,489,645
<b>Other financing uses:</b>														
Operating transfers in	-	-	2,065,808	-	-	-	-	-	-	-	-	-	(916,808)	1,149,000
Operating transfers out	-	-	-	(946,808)	-	-	(29,599)	-	-	(1,200,000)	-	-	916,808	(1,259,599)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>2,065,808</b>	<b>(946,808)</b>	<b>-</b>	<b>-</b>	<b>(29,599)</b>	<b>-</b>	<b>-</b>	<b>(1,200,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(110,599)</b>
Net change in fund balances	935	54,954	1,752,969	(145,363)	(8,432)	-	-	373,180	(30,710)	(620,588)	2,101	-	-	1,379,046
Fund balances (deficit) at beginning 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
Fund balances (deficit) at end of year	\$ (687)	\$ 147,491	\$ 3,899,750	\$ 2,531,161	\$ 68,449	\$ 476	\$ 10,101	\$ 3,144,842	\$ 512,779	\$ 1,994,481	\$ 7,259	\$ 61,236	\$ -	\$ 12,377,338

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**

Combining Schedule of Expenditures by Object  
Year Ended September 30, 2020

	<b>1020</b>	<b>1040</b>	<b>1050</b>	<b>1060</b>	<b>1070</b>	<b>1200</b>	<b>1080</b>	<b>1090</b>	<b>1110</b>	<b>1120</b>	<b>1130</b>	<b>1210</b>	
	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
Expenditures:													
Salaries and wages	\$ -	\$ -	\$ 134,534	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,045	\$ 127,014	\$ -	\$ -	\$ 264,593
Professional	-	6,567	88,662	105	-	-	4,164	-	61	-	-	-	99,559
Repairs and maintenance	-	3,765	17,080	-	1,028	-	5,378	-	3,413	1,448	4,436	-	36,548
Rental	-	2,000	45,704	532	9,663	-	-	-	-	450	-	-	58,349
Construction	-	-	5,467	-	-	-	-	-	-	36,475	-	-	41,942
Freight	-	44	113,749	-	-	-	-	-	-	122	-	-	113,915
Travel	-	5,753	49,318	-	-	-	-	-	-	-	-	-	55,071
Advertising	-	-	12,280	-	-	-	-	-	-	390	-	-	12,670
Communications and postage	-	-	1,875	447	2,740	-	-	-	-	-	-	-	5,062
Supplies and materials	-	6,154	203,785	13,192	2,939	-	12,644	-	4,785	57,640	7,676	-	308,815
Medical drugs	-	-	792,182	-	-	-	-	-	-	-	-	-	792,182
Medical supplies	-	-	652,240	-	-	-	-	-	-	-	-	-	652,240
Medical referrals	-	-	249	-	-	-	-	-	-	-	-	-	249
Petroleum products	-	5,954	214	1,000	-	-	-	-	762	6,841	7,200	-	21,971
Equipment and machinery	-	-	148,310	-	-	-	7,995	-	-	-	-	-	156,305
Food stuffs	-	-	140,142	1,272	-	-	-	-	1,007	409	-	-	142,830
Payments of allotments/benefits	-	-	53,463	-	-	-	-	145,155	-	-	-	-	198,618
Vehicles	-	-	41,500	-	-	-	-	-	46,995	-	-	-	88,495
Utilities	-	-	-	-	1,162	-	-	-	127	-	-	-	1,289
Dues, fees and registration	-	-	-	-	-	-	-	32,108	-	150	75	-	32,333
Compensation	-	-	-	8,000	-	-	-	-	-	-	-	-	8,000
Miscellaneous	-	75	10,592	-	-	-	-	-	-	-	-	-	10,667
<b>Total expenditures</b>	<b>\$ -</b>	<b>\$ 30,312</b>	<b>\$ 2,511,346</b>	<b>\$ 24,548</b>	<b>\$ 17,532</b>	<b>\$ -</b>	<b>\$ 30,181</b>	<b>\$ 177,263</b>	<b>\$ 60,195</b>	<b>\$ 230,939</b>	<b>\$ 19,387</b>	<b>\$ -</b>	<b>\$ 3,101,703</b>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

OTHER INFORMATION

September 30, 2020

A brief discussion of other information presented for additional analysis as of September 30, 2020, 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, 2020

	Special		Permanent		Other Governmental Funds	Total
	Revenue		Compact Funds			
	General	Grants				
Expenditures:						
Salaries and wages	\$ 42,298,510	\$ 6,291,573	\$ -	\$ 264,593	\$ 48,854,676	
Professional and contractual services	505,628	5,083,406	-	99,559	5,688,593	
Repairs and maintenance	666,984	130,660	-	36,548	834,192	
Rentals	1,159,733	818,261	-	58,349	2,036,343	
Buildings	968,187	-	-	-	968,187	
Construction	1,141,727	12,606,479	-	41,942	13,790,148	
Insurance	55,529	900	-	-	56,429	
Advertising	63,546	80,662	-	12,670	156,878	
Travel	828,707	1,061,813	-	55,071	1,945,591	
Cleaning services	281,977	7,750	-	-	289,727	
Communications and postage	1,278,687	193,581	-	5,062	1,477,330	
Supplies and materials	2,277,963	2,042,059	-	308,815	4,628,837	
Medical drugs	364,306	11,904	-	792,182	1,168,392	
Medical supplies	758,421	223,763	-	652,240	1,634,424	
Medical referrals	-	-	-	249	249	
Petroleum products	1,012,652	218,039	-	21,971	1,252,662	
Food stuffs	1,170,086	271,567	-	142,830	1,584,483	
Books and periodicals	47,382	-	-	-	47,382	
Utilities	3,351,814	84,838	-	1,289	3,437,941	
Equipment and machinery	-	401,003	-	156,305	557,308	
Equipment	240,530	-	-	-	240,530	
Vehicles	331,624	465,548	-	88,495	885,667	
Furniture and fixture	9,941	-	-	-	9,941	
Crafts	178	-	-	-	178	
Computer software	9,471	41,814	-	-	51,285	
Training	12,487	227,311	-	-	239,798	
Conference	-	17,746	-	-	17,746	
Administrative costs	-	113,997	-	-	113,997	
Dues, fees and registration	409,579	80,729	-	32,333	522,641	
Investment management fees	28,396	-	1,529,141	-	1,557,537	
Grants and contributions	814,286	-	-	-	814,286	
Payments of allotments/benefits	41,755,652	10,120,080	-	198,618	52,074,350	
Freight	39,323	166,887	-	113,915	320,125	
Student loans	1,706,360	-	-	-	1,706,360	
Scholarships	201,616	-	-	-	201,616	
Compensation	1,009,793	314,775	-	8,000	1,332,568	
Allowance	3,736	-	-	-	3,736	
Employee incentive awards	36,648	3,400	-	-	40,048	
Indirect costs	-	156,416	-	-	156,416	
Donations	2,538,426	517,709	-	-	3,056,135	
Representation and entertainment	71,179	9,925	-	-	81,104	
Bank service fee	26,816	-	-	-	26,816	
Principal retirement	4,421,512	-	-	-	4,421,512	
Interest charges	573,756	-	-	-	573,756	
Miscellaneous	65,752	3,675	-	10,667	80,094	
	<u>\$ 112,538,900</u>	<u>\$ 41,768,270</u>	<u>\$ 1,529,141</u>	<u>\$ 3,101,703</u>	<u>\$ 158,938,014</u>	

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

REPUBLIC OF CHINA TAIWAN GRANTS

Schedule of Expenditures of ROC TAIWAN GRANTS  
Year Ended September 30, 2020

Fund 3040 Grantor Account Title	Authorization	Receivable from Grantor (Deferred Revenue) at 09/30/2019	Cash Receipts FY 2020	Expenditures FY 2020	Receivable from Grantor (Deferred Revenue) at 09/30/2020
<b>FY2015 PROJECTS</b>					
A15ROC01 UNFCC COP20	21,107	(527)	-	-	(527)
TOTAL FY2015	<u>21,107</u>	<u>(527)</u>	<u>-</u>	<u>-</u>	<u>(527)</u>
<b>FY2016 PROJECTS</b>					
J16ROC01 DRUGS TASK FORCE	150,000	(11,971)	-	-	(11,971)
P16ROC0001 LEGACY CAMPAIGN FY16	70,000	70,000	-	-	70,000
S16ROC02 SIS LEADERS SPECIAL MTNG	200,000	(14,049)	-	-	(14,049)
TOTAL FY2019	<u>420,000</u>	<u>43,980</u>	<u>-</u>	<u>-</u>	<u>43,980</u>
<b>FY2017 PROJECTS</b>					
C17ROC01 MCCA SUMMER YOUTH PROGRAM	10,000	9,560	-	-	9,560
C17ROC02 COMMUNITY ACTVTY SMALL G	250,000	(34,107)	-	-	(34,107)
F17ROC01 APAN CONFERENCE	80,000	68,025	-	-	68,025
F17ROC02 BBP INSTITUTIONAL STRENGT	100,000	(1,802)	-	(2,042)	(3,844)
F17ROC03 BBP INST STRENGTHENING	100,000	(2,685)	-	-	(2,685)
F17ROC04 UNFCC MEETING - OERC	18,319	(16,626)	-	-	(16,626)
G17ROC01 SMALL GRANTS PROJECTS	400,000	(400,000)	-	-	(400,000)
G17ROC02 NGARAARD HEALTHY LIVING P	25,000	25,000	-	-	25,000
P17ROC0007 YOUTH PROGRAMS FY17	50,000	63,034	-	-	63,034
P17ROC0008 PALAU BASEBALL FEDERATION	-	5,000	-	-	5,000
P17ROC01 MPS/PIF/UNGA/UNCC MTGS'17	80,000	(338)	-	-	(338)
P17ROC02 OTP OUTREACH ACTIVITIES	500,000	(11,783)	-	-	(11,783)
P17ROC03 PRESIDENT BOAT ENGINE	-	-	-	27,039	27,039
P17ROC04 LEGACY PROJECT	60,000	60,000	-	-	60,000
P17ROC05 INDEPENDENCE DAY CELEBRATION	100,000	(6,010)	-	-	(6,010)
P17ROC06 INDEPENDENCE DAY CELEB	-	-	-	(13,034)	(13,034)
S17ROC01 MOS MEDIA & OUTREACH PROJ	100,000	(1,713)	-	-	(1,713)
S17ROC02 UN OCEANS CONFERENCE	100,000	(6,698)	-	-	(6,698)
TOTAL FY2017	<u>1,973,319</u>	<u>(251,143)</u>	<u>-</u>	<u>11,963</u>	<u>(239,180)</u>
<b>FY2018 PROJECTS</b>					
C18ROC01 23RD INDEP DAY CELEBRATIO	50,000	(1,666)	-	-	(1,666)
F18ROC01 BBP INST STRENGTH	100,000	48,084	-	55,552	103,636
M18ROC01 FISHERIES MANAGEMENT	25,000	(844)	-	474	(370)
P18ROC01 MPS/PIF/UNGA/UNCC MTGS'18	20,000	18,604	-	-	18,604
P18ROC02 PVA OTP HOLIDAY PROJ '18	75,000	75,199	-	(1,955)	73,244
P18ROC03 HOUSING DEVELOP PROJECT	50,000	29,241	-	38,522	67,763
P18ROC04 LEGACY PROJECT OUTREACH	50,000	26,377	-	1,576	27,953
P18ROC06 OTP OUTREACH ACTIVITIES	500,000	(11,557)	-	2,134	(9,423)
P18ROC07 INDEP. DAY CELEBRATION	100,000	(62,632)	-	53,586	(9,046)
P18ROC08 FY18 SMALL GRANT	-	(339,500)	-	-	(339,500)
P18ROC09 EMPLOYEE APP DAY 2018	30,000	29,416	-	-	29,416
P18ROC11 MICRO CNTR 4 SUST FUTURE	200,000	(15,140)	200,000	91,363	(123,777)
P18ROC12 PVA-OTP HOLIDAY PROJECT	72,000	72,325	-	(325)	72,000
P18ROC13 YOUTH PROGRAMS 2018	-	-	-	693	693
TOTAL FY2018	<u>1,272,000</u>	<u>(132,093)</u>	<u>200,000</u>	<u>241,620</u>	<u>(90,473)</u>

**REPUBLIC OF PALAU**

REPUBLIC OF CHINA TAIWAN GRANTS

Schedule of Expenditures of ROC TAIWAN GRANTS  
Year Ended September 30, 2020

Fund 3040 Grantor Account Title	Authorization	Receivable from Grantor (Deferred Revenue) at 09/30/2019	Cash Receipts FY 2020	Expenditures FY 2020	Receivable from Grantor (Deferred Revenue) at 09/30/2020
<b>FY2019 PROJECTS</b>					
BNGW19CIP2	NGI WAL WATER RESERVOIR FS PROJ	-	-	2,722	2,722
C19ROC01	24TH INDEP DAY FIREWORKS	50,000	(35,492)	63,090	27,598
F19ROC01	DRUG DETECTOR DOGS UNIT	50,000	42,191	163	42,354
M19ROC0001	BMR CLAM FARMING PROJECT	-	-	4,384	4,384
P19ROC01	MICRONESIAN ISLAND FAIR	-	4,950	(4,950)	-
P19ROC02	OTP OUTREACH ACTIVITIES	500,000	(192,841)	379,815	186,974
P19ROC03	INDEPENDENCE DAY CELEB	200,000	(100,000)	-	(100,000)
P19ROC04	SMALL GRANT PROJECTS	400,000	(400,000)	-	(400,000)
P19ROC05	DOLPHIN PACIFIC PROJECT	25,000	25,000	-	25,000
P19ROC06	CHOLL COUNTY SUMMER ACTIVITY	10,000	10,000	-	10,000
P19ROC07	NGARAARD HEALTHY LIVING	-	25,000	-	25,000
P19ROC08	PALAU EVANGELICAL CHURCH GOSPEL D.	-	5,000	-	5,000
P19ROC09	NGAREMLENGUI SUMMER YOUTH PROGRAM	-	10,000	-	10,000
P19ROC10	NGARA SESEB ELDEBEHEL	-	25,000	-	25,000
P19ROC11	MICRO PRESIDENT SUMMIT	200,000	(16,765)	-	(16,765)
P19ROC12	ASIA-PACIFIC FIRST LADIES SUMMIT	-	-	(272)	(272)
P19ROC0013	EMPLOYEE APPRECIATION	-	-	9,930	9,930
P19ROC0014	PVA-OTP HOLIDAY PROJECT	-	-	109,473	109,473
P19ROC0016	BELAU FORCE INT	-	-	-	-
P19ROC0017	MENGELLAKL ABAI PROJ	-	-	41,706	41,706
P19ROC0018	NGERMASECH ABAI COMM CNTR	-	-	11,078	11,078
P19ROC0021	PRESIDENT'S DAY ACTIVITIES	-	-	-	-
TOTAL FY2019		1,435,000	(597,957)	617,139	19,182
<b>FY2020 PROJECTS</b>					
BKOR20ROC1	MEKETII WALKABILITY PROJECT	-	-	-	-
BNSG20ROC1	OKETOL WAITING HOUSE IMPROVEMENTS	-	-	-	-
C20ROC0001	PVA-OTP CHRISTMAS PROGRAM 2020	-	-	-	-
F20ROC0001	BBP INSTITUTIONAL STRENGTHENING	-	-	69,892	69,892
M20ROC0001	PALAU LIVESTOCK PROGRAM	-	-	25,000	25,000
M20ROC0002	BMR-EBIIL SOCIETY HATCHERY	-	-	-	-
P20ROC0001	OTP OUTREACH ACTIVITIES	-	-	479,217	479,217
P20ROC0002	Youth Action Preserve Culture	-	-	7,022	7,022
P20ROC0003	FY20 SUMMER EMPLOYMENT PROGRAM	-	-	-	-
P20ROC0004	40TH CONSTITUTIONAL DAY ACTIVITIES	-	-	6,458	6,458
P20ROC0005	KAYANGEL STATE BOAT ENGINE	-	-	55,528	55,528
P20ROC0006	PELELIU STATE RADIO PROJECT	-	-	12,026	12,026
P20ROC0007	INDEPENDENCE DAY FIREWORKS	-	-	50,000	-
P20ROC0008	2020 INDEPENDENCE DAY CELEBRATION	-	-	76,420	76,420
P20ROC0009	NGERMETENGEL BAI IMPROVEMENTS	-	-	-	-
P20ROC0010	NGARAARD: CHOLL YOUTH SUMMER PROG.	-	-	-	-
P20ROC0011	NGERBECHES MARKET ORG	-	-	-	-
P20ROC0012	FY2020 SMALL GRANTS	-	-	15,000	15,000
TOTAL FY2020		-	-	50,000	746,563
TOTAL		5,121,426	(937,740)	1,667,285	479,545

**REPUBLIC OF PALAU**

**OTHER NON-U.S. GRANTS FUND**

**Schedule of Expenditures of Other Non-U.S. Grants  
Year Ended September 30, 2020**

Fund 3050 Grantor Account Title	Project	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 09/30/2019	Cash Receipts FY 2020	Expenditures FY 2020	Receivable from Grantor (Deferred Revenue) at 09/30/2020
<b>UNCCD GRANT COMMITTEE</b>							
UNCCD 2018 NAT'L REPORT	M18UNCCD	M83923	40,000	(30,037)	-	2,824	(27,213)
Total UNCCD			40,000	(30,037)	-	2,824	(27,213)
<b>WORLD HEALTH ORGANIZATION (WHO)</b>							
DSG GRAPHIC HLTH WARNING	H17WHO0001	H7WHO1	6,350	(7)	-	-	(7)
ANTIBIOTIC AWARENESS WEEK	H17WHO0002	H7WHO2	7,978	(808)	-	-	(808)
MIGRANT POPULATION SURVEY	H17WHO0003	H7WHO3	8,790	(260)	-	-	(260)
ANTIMICROBIAL WORKSHOP	H17WHO0004	H7WHO4	3,205	(1,533)	-	103	(1,430)
YOUTH TOBACCO SURVEY	H17WHO0006	H7WHO6	10,009	(158)	-	158	-
2017 WORLD HAND WASH DAY	H17WHO0007	H7WHO7	5,000	(1,460)	-	1,460	-
WHO IHR WORKSHOP	H18WHO0001	H8WHO1	5,040	(754)	-	-	(754)
2017 ANTBIOIC AWARENESS	H18WHO0002	H8WHO2	4,997	(4,997)	-	2,886	(2,111)
AIR CAMPAIGN	H18WHO0003	H8WHO3	5,550	(7)	-	-	(7)
WORLD NO TOBACCO DAY 2018	H18WHO0004	H8WHO4	5,470	(397)	-	397	-
ALCOHOL COALITION MEETING	H18WHO0005	H8WHO5	2,100	(600)	-	-	(600)
LF WORKSHOP	H18WHO0006	H8WHO6	1,500	(1)	-	-	(1)
POLICY DEV FOR LF ELIM	H18WHO0007	H8WHO7	1,500	1,500	-	-	1,500
DDM MODULE 3-5	H19WHO0001	H9WHO1	2,750	(2,750)	-	2,750	-
JOINT EXTERNAL EVAL TRNG	H19WHO0002	H9WHO2	14,830	(12,080)	-	11,597	(483)
NCD INTERVENTION/PEN MGT	H19WHO0003	H9WHO3	4,184	(549)	-	-	(549)
CBR AWARENESS AND DEV	H19WHO0004	H9WHO4	5,495	(2,479)	-	-	(2,479)
WORLD NO TOBACCO DAY PREP	H19WHO0005	H9WHO5	8,580	(8,087)	-	6,544	(1,543)
DROWNING PREVENTION	H19WHO0006	H9WHO6	1,000	(1,000)	-	-	(1,000)
INFECTION PREV & CONTROL	H19WHO0007	H9WHO7	11,638	(4,643)	-	3,355	(1,288)
INTL HLTH REGULATIONS JEE	H19WHO0008	H9WHO8	21,913	(20,619)	-	19,396	(1,223)
MORBID MORTALITY DATA IMP	H19WHO0009	H9WHO9	7,550	(3,750)	-	1,835	(1,915)
ANTIMICROBIAL RESISTANCE	H20WHO0001		11,575	-	11,575	1,203	(10,372)
CHART AUDIT PROJECT	H20WHO0002		1,125	-	2,285	1,125	(1,160)
WORLD NO TOBACCO DAY PREP	H20WHO0003		4,400	-	4,440	-	(4,440)
COVID19 MENTAL HEALTH AWARENESS PROJ	H20WHO0004		32,500	-	32,500	15,500	(17,000)
Total WHO			195,029	(65,439)	50,800	68,309	(47,930)
<b>UNDP PUBLIC SECTOR PROG</b>							
MOS BDA UNDP LGSP PROJ	S19LGSP001	S93929	17,500	(8,750)	-	365	(8,385)
Total UNDP PUBLIC SECTOR PROG			17,500	(8,750)	-	365	(8,385)
<b>GEF OPERATIONAL FOCAL POINT</b>							
3RD NATIONAL BIOSAFETY REPORT		M73932	25,000	(349)	-	-	(349)
Total GEF OPERATIONAL FOCAL POINT			25,000	(349)	-	-	(349)
<b>SPREP</b>							
OZONE DEPLETING SUBSTANCE	A12ODS001	A23936	221,625	1,489	-	-	1,489
OZONE DEPLETING SUBSTANCE	A13ODS001	A33936	50,000	1,299	-	-	1,299
Total SPREP			271,625	2,788	-	-	2,788
<b>UN POPS GRANTS</b>							
IMPLEMENT GMP FOR POPS	A16POPS01	A63938	61,484	(11,867)	-	8,601	(3,266)
EQPB- UNEP POP/NIP 2013	A13POPNI01	R33938	99,475	(1,964)	-	-	(1,964)
Total UN Pops Grants			160,959	(13,831)	-	8,601	(5,230)
<b>UNESCO-SKILLS DEV. TRNG</b>							
NGARMEDUU MGT AGREEMENT	M18NMEDUU1	M83941	1,000	(1,000)	-	1,000	-
Total UNESCO-SKILLS DEV. TRNG			1,000	(1,000)	-	1,000	-
<b>TNC GRANTS</b>							
LAW ENFORCEMENT CAPACITY	J17ENFCAP1	J73952	20,000	(2,384)	-	1,597	(787)
PAN LEGAL FRAMEWORK FY13	M13PAN001	M3TNC1	15,000	(1,957)	-	688	(1,269)
FISHERY DATA COLLECTION	M13FSHRY01	M3TNC2	117,000	(13,222)	10,000	12,364	(10,858)
TUNA FISHERIES PROJECT	M15TUNA001	M53952	300,000	(688)	-	-	(688)
PAC TUNA PROJECT	M18TUNA001	M8TNC3	45,000	(55)	-	-	(55)
COOP GRANT AGREEMENT WITH PRES	P16TNC001	P63952	50,000	(2,882)	-	-	(2,882)
OUR OCEAN CONFERENCE 2020	P19OOC2020	P93952	50,000	(50,000)	-	24,364	(25,636)
Total TNC Grants			597,000	(71,188)	10,000	39,013	(42,175)
<b>MARINE SANCTUARY CONTRIBUTIONS</b>							
MARINE SANCTUARY	M16PNMS01	M6MC01	50,000	(1,579)	-	-	(1,579)
MS ITALY - PICRC	M16PNMS02	M6MC02	56,000	(5,598)	-	-	(5,598)
MARINE SANCTUARY -TNC	M17PNMS01	M7MC01	125,000	(21,948)	-	-	(21,948)
PNMS OCEAN CONSERVATION	M16PNMS03	P63955	110,652	(1,087)	-	-	(1,087)
Total Marine Sanctuary			341,652	(30,212)	-	-	(30,212)



**REPUBLIC OF PALAU**

**OTHER NON-U.S. GRANTS FUND**

**Schedule of Expenditures of Other Non-U.S. Grants  
Year Ended September 30, 2020**

Fund 3050 Grantor Account Title	Project	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 09/30/2019	Cash Receipts FY 2020	Expenditures FY 2020	Receivable from Grantor (Deferred Revenue) at 09/30/2020
<b>CANADA FUND</b>							
PROMOTING SUSTAINABLE EGW	R19CANPSE1	R93960	40,257	(40,257)	-	-	(40,257)
Total Canada Fund			<u>40,257</u>	<u>(40,257)</u>	<u>-</u>	<u>-</u>	<u>(40,257)</u>
<b>SECRETARIAT PACIFIC COMMUNITY</b>							
PALAU ISSAC PROJECT	F17SPC001	F73961	124,000	18,469	39,073	41,244	20,640
ACP-EU BSRP	V17SPC001	V73961	34,403	(2,493)	-	-	(2,493)
Total SPC Grants			<u>158,403</u>	<u>15,976</u>	<u>39,073</u>	<u>41,244</u>	<u>18,147</u>
<b>EUROPEAN UNION - ASCE</b>							
ASCE-CCCPIR-ICC 2016	A16GIZ001	A6GIZ1	70,000	(105)	-	-	(105)
ASCE-CCCPIR-FPS 2016	A16GIZ002	A6GIZ2	526,961	214,267	192,615	10,263	31,915
Total European Union Grants			<u>596,961</u>	<u>214,162</u>	<u>192,615</u>	<u>10,263</u>	<u>31,810</u>
<b>FISHERIES FORUM AGENCY</b>							
VESSEL MONITORING SYSTEM	J11FFA001	J13971	172,918	(939)	-	10,069	9,130
FFA PROJECTS	M14FFA001	M4FFA0	444,935	(4,833)	-	2,293	(2,540)
PALAU PROJ DEV FUND FY18	M18FFA001	M83971	234,290	(11,077)	270,000	142,176	(138,901)
PALAU PDF 15%	R03971		74,774	-	-	-	-
FFA 2013	R33971		25,000	-	-	-	-
Total Fisheries Forum Agency			<u>951,917</u>	<u>(16,849)</u>	<u>270,000</u>	<u>154,538</u>	<u>(132,311)</u>
<b>AUSTRALIAN GRANTS</b>							
MCCA-BPNA Palauan Language & CASP	C11ARC0001	C1ARC1	10,725	(220)	-	-	(220)
TESOL TRAINING 2013	E13AUS001	E33975	34,800	(2,937)	-	-	(2,937)
Total Australian Grants			<u>45,525</u>	<u>(3,157)</u>	<u>-</u>	<u>-</u>	<u>(3,157)</u>
<b>JAPAN GRANTS</b>							
AGING BUILDING RENOVATION	C20AGING01		89,639	-	89,639	-	(89,639)
DR. OGATA DONATION FOR CAR	E16JAP001	E63976	4,072	(2,977)	-	299	(2,678)
FIRE TRUCK AND AMBULANCE	J20MOJ001		181,600	-	90,800	90,800	-
JCM CRT 2015	M15JAP002	M53976	47,214	(3,887)	15,192	3,948	(15,131)
DOMESTIC TUNA MARKET DEV PROJECT	M20DTMDP01	0	70,011	-	70,011	13,226	(56,785)
AERODROME WORKSHOP	R19AERO001	R93976	5,985	(4,000)	1,985	-	(5,985)
Total Japan Grants			<u>398,521</u>	<u>(10,864)</u>	<u>267,627</u>	<u>108,273</u>	<u>(170,218)</u>
<b>PACIFIC COMMUNITY GRANTS</b>							
RIDGE TO REEF PROJ 2016	M16PCG001	M63978	166,646	(23,138)	28,886	51,077	(947)
EU NORTH PACIFIC RENI PRJ	V19PCG001	V93978	18,513	6,969	12,447	5,478	-
Total Pacific Community Grants			<u>185,159</u>	<u>(16,169)</u>	<u>41,333</u>	<u>56,555</u>	<u>(947)</u>
<b>SPREP GRANTS</b>							
E-WASTE PROJECT - EQPB	A16SPREP01	A63979	12,000	(4,802)	-	4,233	(569)
MIA ACTIVITIES IMPL	A18SPREP01	A83979	16,980	(9,217)	-	881	(8,336)
GEF POP RELEASE PROJ	A18POP001	A8POP1	4,980	(43)	-	-	(43)
Total SPREP Grants			<u>33,960</u>	<u>(14,062)</u>	<u>-</u>	<u>5,114</u>	<u>(8,948)</u>
<b>MICRONESIA CONSERVATION TRUST</b>							
DEVELOP FOREST MONITORING DATABASE	F19FOREST1	F93988	10,000	-	5,000	-	(5,000)
			<u>10,000</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>(5,000)</u>
<b>PICRC</b>							
DEVELOP CC COM PLAN	F19PICRC01	F93981	16,000	(16,000)	-	224	(15,776)
PALAU MARKET STUDY	M16PICRC01	M6PC01	44,217	(989)	-	790	(199)
Total PICRC			<u>60,217</u>	<u>(16,989)</u>	<u>-</u>	<u>1,014</u>	<u>(15,975)</u>
<b>PALAU COMMUNITY ACTION AGENCY-PCAA</b>							
OUR OCEANS COFENERENCE 2020	P20OCOPCAA		42,770	-	42,770	12,172	(30,598)
			<u>42,770</u>	<u>-</u>	<u>42,770</u>	<u>12,172</u>	<u>(30,598)</u>
<b>US NON FED</b>							
USNS BISMARCK SECURITY MEASURES	J20BISMARCK		4,830	-	-	4,390	4,390
ENHANCE ROP ARMS CONTROL	J18ATT001	J83990	72,679	(4,069)	-	-	(4,069)
Total US NON FED			<u>77,509</u>	<u>(4,069)</u>	<u>-</u>	<u>4,390</u>	<u>321</u>

**REPUBLIC OF PALAU**

**OTHER NON-U.S. GRANTS FUND**

**Schedule of Expenditures of Other Non-U.S. Grants  
Year Ended September 30, 2020**

<u>Fund 3050</u> <u>Grantor Account Title</u>	<u>Project</u>	<u>Cost Center</u>	<u>Authorization</u>	<u>Receivable from Grantor (Deferred Revenue) at 09/30/2019</u>	<u>Cash Receipts FY 2020</u>	<u>Expenditures FY 2020</u>	<u>Receivable from Grantor (Deferred Revenue) at 09/30/2020</u>
<b>MOH SMALL GRANTS - OTHERS</b>							
MOH SEOW FY2011	H11SEW001	H13991	100,000	(2,657)	-	-	(2,657)
MOH SEOW FY2012	H12SEOW01	H23991	75,000	(2,508)	-	1,528	(980)
MOH SEOW 2013	H13SEOW01	H33991	95,000	(1,391)	-	-	(1,391)
BUILD EVAL CAPACITY 2014	H14EDC001	H4EDC1	30,000	(1,573)	-	-	(1,573)
Total MOH Small Grants			<u>300,000</u>	<u>(8,129)</u>	<u>-</u>	<u>1,528</u>	<u>(6,601)</u>
<b>LSTA STATE GRANTS</b>							
IMLS LSTA CARES ACT	E20IMLS001		1,959	-	-	-	-
IMLS LSTA 2018	E18IMLS001	E83992	36,909	36,909	25,242	-	11,667
IMLS LSTA 2019	E19IMLS001	E93992	35,500	-	-	18,382	18,382
Total LSTA State Grants			<u>74,368</u>	<u>36,909</u>	<u>25,242</u>	<u>18,382</u>	<u>30,049</u>
<b>PROTECTED AREAS NETWORK</b>							
MOJ DFW PAN AGREEMENT	J20PAN001		43,777	-	43,777	-	(43,777)
NR MARITIME SURVEILLANCE	J17PAN001	J73997	115,153	(14,725)	-	10,163	(4,562)
SUPPORT IMPL OF PNMS	M17PAN001	M73997	196,000	(19,763)	-	-	(19,763)
Total PAN Grant			<u>354,930</u>	<u>(34,488)</u>	<u>43,777</u>	<u>10,163</u>	<u>(68,102)</u>
<b>UNDP/UNCCD/GEF</b>							
PRESERVE CULTURAL HERITAGE	C20MCCA0001	C08923	126,000	-	126,500	121,946	(4,554)
UNDP-OERC ENVIRONMENT PROJ	F16OERC1	F68923	417,259	(59,825)	-	82,473	22,648
AUTOMATED WEATHER MONITORING EQUIP	F20NWSUNDP		337,751	-	337,751	-	(337,751)
EQPB GEF6 PROJECT	A19GEF6006		14,500	-	14,500	4,966	(9,534)
MCCA GEF6 PROJECT	C19GEF6007		19,750	-	19,750	19,735	(15)
MOF GEF6 PROJECT	F19GEF6005		16,500	-	16,500	15,937	(563)
MOJ GEF6 PROJECT	J19GEG6008		8,500	-	8,500	1,984	(6,516)
UNDP GEF 6 PROJECT	M19GEF601	M98923	59,235	(7,049)	158,018	165,592	525
M98923 GEF 6 SUB COMP	M19GEF602	M9BOA1	42,125	961	110,287	82,898	(26,428)
M98923 GEF 6 SUB COMP	M19GEF603	M9NRET	44,250	16,382	210,032	183,493	(10,157)
BOT GEF6 PROJECT	M19GEF6004		10,000	-	20,000	9,914	(10,086)
Total UNDP			<u>1,095,870</u>	<u>(49,531)</u>	<u>1,021,838</u>	<u>688,938</u>	<u>(382,431)</u>
<b>UNEP GRANTS</b>							
UNEP-SSFA-ODS SURVEY	A16UNEP01	A68926	35,000	(4,033)	-	1,622	(2,411)
UNEP-SSFA-ODS SURVEY	A18UNEP01	A88926	86,500	(49,392)	5,000	40,500	(13,892)
UNEP-SSFA-ODS SURVEY	A18UNEP02	A8KIG1	25,000	(11,877)	-	7,869	(4,008)
HCFC MGT PLAN PHASE II	A19UNEP01	A98926	16,500	(6,875)	-	-	(6,875)
CHEMICAL/WASTE MANAGEMENT	A19UNEP02	A9CM1	97,500	(97,500)	-	27,186	(70,314)
UNEP-SSFA-ISP-PHVIII	A20UNEP001		40,000	-	40,000	-	(40,000)
M7PAN1 SUB CONTRACT	E17GEF506	E78926	25,000	(14,749)	-	6,166	(8,583)
SUB CONTRACT M7PAN1	F17GEF506	F7MOF1	10,000	(10,000)	-	-	(10,000)
THIRD NATIONAL COMMUNICATIONS	F20NATCOM1		20,000	-	20,000	10,253	(9,747)
2ND NAT'L COMM 2013	M13UNEP01	M38926	50,400	(1,223)	-	-	(1,223)
ADV SUSTAINABLE RES MGT	M17GEF501	M78926	2,148,657	(25,239)	280,117	127,855	(177,501)
M78926 SUB CONTRACT	M17GEF502	M7BOA1	300,000	(52,439)	-	61,184	8,745
M78926 SUB CONTRACT	M17GEF503	M7BOT1	174,000	(35,395)	-	35,500	105
M78926 SUB CONTRACT	M17GEF504	M7EQPB	53,600	(8,806)	-	5,336	(3,470)
M78926 MNRET SUB CONT	M17GEF505	M7NRET	213,500	(30,566)	-	70,462	39,896
M78926 SUB CONTRACT	M17GEF506	M7PAN1	570,496	(228,217)	-	242,816	14,599
6TH NAT RPT TO THE CBD	M18UNEP01	M88926	70,000	(16,666)	25,000	33,221	(8,445)
NBSAP/ 5TH CBD RPT	F12NBSAP01	R28926	209,000	(663)	-	-	(663)
Total UNEP Grants			<u>4,145,153</u>	<u>(593,640)</u>	<u>370,117</u>	<u>669,970</u>	<u>(293,787)</u>
<b>UNITED NATIONS OFFICE FOR PROJECT SERVICES - UNOPS</b>							
GREEN CLIMATE FUND READINESS	F20GCF001		955,646	-	350,000	-	(350,000)
			<u>955,646</u>	<u>-</u>	<u>350,000</u>	<u>-</u>	<u>(350,000)</u>
<b>OTHER FOREIGN GRANTS</b>							
2016 SWEDISH UPR-HRC	S16UPR01	S68952	38,034	(836)	-	-	(836)
Total Other Foreign Grants			<u>38,034</u>	<u>(836)</u>	<u>-</u>	<u>-</u>	<u>(836)</u>
<b>OTHER PACIFIC ISLAND ASSISTANCE</b>							
MICRONESIAN ISLAND FORUM	P20MIF0001	P8MCS1	305,000	(210,000)	90,000	134,188	(165,812)
			<u>305,000</u>	<u>(210,000)</u>	<u>90,000</u>	<u>134,188</u>	<u>(165,812)</u>
<b>ISRAEL GRANTS-DONATIONS</b>							
MOS TRAVEL MEETING EXP	S17ISR001	S78953	34,827	(729)	-	-	(729)
Total Israel Grant-Donations			<u>34,827</u>	<u>(729)</u>	<u>-</u>	<u>-</u>	<u>(729)</u>
<b>ICT WORLD BANK</b>							
ICT World Bank	F18ICT01	F8ICT1	172,775	11,500	172,775	172,775	11,500
Total ICT WORLD BANK			<u>172,775</u>	<u>11,500</u>	<u>172,775</u>	<u>172,775</u>	<u>11,500</u>

**REPUBLIC OF PALAU**

**OTHER NON-U.S. GRANTS FUND**

**Schedule of Expenditures of Other Non-U.S. Grants  
Year Ended September 30, 2020**

Fund 3050 Grantor Account Title	Project	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 09/30/2019	Cash Receipts FY 2020	Expenditures FY 2020	Receivable from Grantor (Deferred Revenue) at 09/30/2020
<b>INDIA GRANTS</b>							
MCCA-NCD AWARENESS CAMP	C18IND01	C8YS01	10,000	(9,335)	-	-	(9,335)
HEALTH AWARENESS CAMPAIGN	E18IND01	E8YS01	10,000	(5,917)	-	-	(5,917)
BPSS-WORKSITE WELLNESS CO	F18IND01	F8YS01	10,000	(3,345)	-	-	(3,345)
MEN'S HEALTH PROGRAM	H18IND01	H8YS01	9,630	(818)	-	2,518	1,700
RHD SCREENING	H18IND03	H8YS03	10,000	(6,271)	-	4,015	(2,256)
ICU EQUIPMENTS	H18IND04	H8YS04	8,545	(8,545)	-	8,545	-
ICU INSTALLATION&TRAINING	H18IND05	H8YS05	9,758	(9,758)	-	9,055	(703)
HOSPITAL EQUIPMENT	H18IND06	H8YS06	5,000	(5,000)	-	5,000	-
YOUTH PROJECTS	P16IND01	P6YS01	200,000	(5,061)	-	-	(5,061)
MPIIC	R18IND01	R8YS01	7,000	(5,190)	-	1,939	(3,251)
YOUTH PROJECTS FY19	P19IND01	P9YS01	200,000	10,000	167,316	103,003	(54,313)
PHS THEATER	E19ILE0002		10,000	-	10,000	9,983	(17)
PHS SCUBA OPEN WATER	NE9ILE0001		12,000	-	12,700	12,700	-
ARFF TOOLS AND EQUIPMENT	R19ILE0001		9,984	-	9,984	3,731	(6,253)
MINISTRY OF STATE EQUIPMENTS		S08968	100,000	-	-	-	-
SUBMARINE CABLE FEASABILITY		S18968	100,000	-	-	-	-
2ND FORUM FOR IPIC	S15IND01	S58968	55,274	-	-	-	-
Total India Grants			<u>767,191</u>	<u>(49,240)</u>	<u>200,000</u>	<u>160,489</u>	<u>(88,751)</u>
<b>SASAKAWA PEACE FOUNDATION</b>							
MOJ EMPL & TRAINING GRT	J17SPF01	J78971	392,422	45,280	254,826	214,840	5,294
MOJ SPB TRAINEES	J17SPF02	J7SPB1	30,263	2,974	14,028	99,490	88,436
Total SASAKAWA PEACE FOUNDATION			<u>422,685</u>	<u>48,254</u>	<u>268,854</u>	<u>314,330</u>	<u>93,730</u>
<b>IWRM Project (SOPAC)</b>							
SOPAC-NGERIKIIL WATER SHED	A09IWRM01	A98975	765,466	(26,141)	-	13,100	(13,041)
Total IWRM			<u>765,466</u>	<u>(26,141)</u>	<u>-</u>	<u>13,100</u>	<u>(13,041)</u>
<b>ENERGY SECT IN 5 ACP ISLS</b>							
TECH COOP FACILITY II	F17TCF001	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>
<b>NEMO PEACESAT ASSISTANCE</b>							
ISC MEETING		V68980	4,253	-	-	-	-
Total PeaceSat Assistance			<u>4,253</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>PALAU CONSERVATION SOCIETY (PCS)</b>							
REVIVE TRADNL CROPLANDS	A17PCS01	A78989	25,350	(5,636)	-	4,653	(983)
PCS PALARIS 6 NAT RPT CBD	F19PCS01	F98989	2,500	(2,500)	-	-	(2,500)
Total PCS			<u>27,850</u>	<u>(8,136)</u>	<u>-</u>	<u>4,653</u>	<u>(3,483)</u>
<b>SAMHSA</b>							
BHSIS 2020	H20SAMSA1	H08993	61,813	(13,276)	46,360	52,035	(7,601)
BHSIS 2014	H14SAMSA1	H48993	42,033	(1,071)	-	-	(1,071)
BHSIS 2015	H15SAMSA1	H58993	62,526	(501)	-	-	(501)
BHSIS 2016	H16SAMSA1	H68993	61,813	501	-	-	501
BHSIS 2017	H17SAMSA1	H78993	61,813	(55)	-	-	(55)
BHSIS 2018	H18SAMSA1	H88993	77,266	(1,910)	-	-	(1,910)
BHSIS 2019	H19SAMSA1	H98993	67,573	(4,349)	-	3,471	(878)
BEHAVIORAL HEALTH PROGRAM	H21SAMSA1		61,813	-	15,453	11,336	(4,117)
Total SAMHSA			<u>496,650</u>	<u>(20,661)</u>	<u>61,813</u>	<u>66,842</u>	<u>(15,632)</u>
<b>ASIA DEVELOPMENT BANK</b>							
19 EMERGENCY RESPONSE PROJECT	F20COVID01		1,000,000	-	1,000,000	272,684	(727,316)
PALAU HIES TA8581-REG	F15ADB001	F58995	200,000	(79,349)	-	-	(79,349)
Total ADB - HIES			<u>1,200,000</u>	<u>(79,349)</u>	<u>1,000,000</u>	<u>272,684</u>	<u>(806,665)</u>
<b>PARTIES TO THE NAURU FUND</b>							
OCEANS CONFERENCE 2020	M19PNA01	M98996	700,000	(31,522)	-	13,930	(17,592)
PAN - MPA 2017	M17PNA01	R78996	562,500	(123,113)	275,000	363,498	(34,615)
Total Parties to Nauru Fund			<u>1,262,500</u>	<u>(154,635)</u>	<u>275,000</u>	<u>377,428</u>	<u>(52,207)</u>
Total Other Grants			<u>16,854,162</u>	<u>(1,285,111)</u>	<u>4,798,634</u>	<u>3,419,145</u>	<u>(2,664,600)</u>
Reconciliation to financial statements:							
Operating transfers in:							
Micronesia Island Forum	P20MIF0001						<u>15,000</u>
Total Unearned Revenue							<u>(2,679,600)</u>

**REPUBLIC OF PALAU**

**REPUBLIC OF CHINA TAIWAN CIP FUND**

**Schedule of Expenditures of Republic of China Taiwan Capital Improvement Projects  
Year Ended September 30, 2020**

Fund 4020 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/2019	Cash Receipts FY2020	Expenditures FY2020	Receivable from Grantor (Deferred Revenue) at 9/30/2020
<b>FY2015 PROJECTS</b>					
BNSG15CIP1	NGERBAU REC PARK F15	300,000	(18,834)	-	18,834
	TOTAL FY2015 PROJECTS	<u>300,000</u>	<u>(18,834)</u>	<u>-</u>	<u>18,834</u>
<b>FY2016 PROJECTS</b>					
BKOR16CIP1	MEYUNS FIELD LIGHTING FY16	300,000	140,000	225,000	55,816
BNRD16CIP3	NGERCHOKL SITE PROJ F16	100,000	(78,800)	-	-
BNSG16CIP1	MENGELLANG-OLLEI WATR F16	250,000	-	-	9,785
BNSG16CIP3	NGERBAU RECREATIONAL PARK	300,000	(15,525)	30,000	140,748
BNGS16CIP1	NGCHESAR RD IMP PROJ F16	300,000	(4,135)	-	3,953
F16ADMCIP1	GEN. MANAGEMENT SUPPORT	458,042	(106,614)	-	-
G16CIP0002	2016 YOUTH PROGRAMS	200,000	(1,654)	-	-
J16CIP0001	LAW ENF VEHICLES & EQUIP	600,000	-	-	9,950
M16CIP0002	AGRI PRJ/ANI HUSB PRO F16	1,000,000	300,000	300,000	-
	TOTAL FY2016 PROJECTS	<u>3,508,042</u>	<u>233,272</u>	<u>555,000</u>	<u>220,252</u>
<b>FY2017 PROJECTS</b>					
BAIM17CIP1	MELTELATL ROAD IMPROVEMEN	150,000	67,718	75,000	30,650
BAIM17CIP2	MONGAMI ROAD IMPROVEMENT	150,000	(420)	-	-
BAIR17CIP1	AIRAI REC PARK PROJECT	100,000	176,369	280,000	60,850
BAIR17CIP2	PIA-KED ROAD SEGMENT	700,000	(32,797)	28,000	32,156
BMEI17CIP1	MELEKEOK ROAD IMPROVEMENT	300,000	11,963	12,000	-
BNGA17CIP1	IMEONG NGERMETENGEL ROAD	800,000	349,592	360,000	2,246
BNGA17CIP2	NGERREML HEAVY EQUIPMENT	500,000	56,704	-	1,400
BNGS17CIP1	NGCHESAR ROAD IMP PROJECT	300,000	(4,876)	189,000	165,146
BNGS17CIP3	TABERNGESANG IMP PROJECT	200,000	(28,910)	74,000	120,413
BNGT17CIP2	NGATPANG ROAD IMPROVEMENT	300,000	163,315	225,000	69,108
BNGW17CIP1	NGIWAL STATE ROAD IMPROVE	300,000	1,146	15,000	8,484
BNRD17CIP1	NGESANG-ELAB ROAD IMPROVE	300,000	133,857	156,000	352
BNRD17CIP3	ULIMANG-NGKEKLAU ROAD IMP	200,000	(4,313)	-	4,239
BNRD17CIP5	KUABS REC PARK PROJECT	200,000	(8,977)	80,000	80,375
BNRD17CIP6	NGERCHOKL SITE DEVELOPMEN	250,000	(25,000)	37,500	46,489
BNSG17CIP1	MENGELLANG-OLLEI WATERLIN	700,000	337,781	455,000	116,184
BPEL17CIP1	PELELIU STATE CAP BUILDIN	300,000	(30,000)	-	-
BPEL17CIP2	WATER DIST CAMP BECK NGER	300,000	55,576	210,000	135,938
F17ADMCIP1	GEN MANAGMENT SUPPORT 17	290,882	154,327	-	-
H17CIP0001	BNH GENSET	800,000	(87,000)	-	-
H17CIP0002	BNH CHILLER	120,000	119,200	120,000	-
M17CIP0002	AGRICULTURE/ANIMAL PROJEC	750,000	750,000	750,000	-
M17CIP0003	BMR FISH HATCHERY IMPROV	200,000	175,950	200,000	-
R17CIP0001	BABELDAOB SOLAR STRTLIGHT	200,000	200,000	-	-
R17CIP0002	COMPACT RD SOLAR LIGHTING	880,000	(42,698)	88,000	-
R17CIP0003	ONE STOP SHOP PH 1	700,000	373,865	530,000	109,902
R17CIP0004	ONE STOP SHOP IT INFRUSTR	300,000	172,000	-	-
	TOTAL FY2017 PROJECTS	<u>10,290,882</u>	<u>3,034,372</u>	<u>3,884,500</u>	<u>983,932</u>

# REPUBLIC OF PALAU

## REPUBLIC OF CHINA TAIWAN CIP FUND

### Schedule of Expenditures of Republic of China Taiwan Capital Improvement Projects Year Ended September 30, 2020

Fund 4020 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/2019	Cash Receipts FY2020	Expenditures FY2020	Receivable from Grantor (Deferred Revenue) at 9/30/2020	
<b><u>FY2018 PROJECTS</u></b>						
BAIR17CIP3	PIA KED ROAD SEGM PHASE 2	300,000	81,336	300,000	225,237	6,573
BNGA18CIP1	COMP-IMEONG ROAD SEGMENT	700,000	-	175,000	406,903	231,903
BNGM18CIP1	NGARDMAU STATE OFFICE BDG	500,000	207,605	400,000	228,548	36,153
BNGW18CIP1	NGIWAL STATE ROAD IMP FY18	200,000	-	180,000	159,257	(20,743)
BPEL18CIP1	PELELIU STATE CAP BUILDIN	500,000	254,861	450,000	289,913	94,774
H18CIP0001	BNH HIS FY18	1,500,000	1,482,000	1,600,000	-	(118,000)
J18CIP0001	BPS SURVEILLANCE PHASE 1	1,000,000	574,691	1,000,000	(9,131)	(434,440)
M18CIP0001	AGRI PROJECT/ANIMAL HUSBANDRY	500,000	-	350,000	350,000	-
Q18CIP0001	JUDICIARY GEN/ELEVATOR	100,000	99,419	100,000	581	-
R18CIP0001	CAPITOL STNDBY GNTR SWITC	550,000	436,878	500,000	46,760	(16,362)
R18CIP0002	CAPITOL COMPLEX CONF CENT	500,000	143,190	225,000	-	(81,810)
R18CIP0003	CIP OFFICE BUILDING PROJECT	300,000	-	75,000	-	(75,000)
R18CIP0004	ONESTOP SHOP PAHSE II	3,200,000	-	450,000	-	(450,000)
R18CIP0005	CAPITOL STANDBY GENERATOR	300,000	-	30,000	14,716	(15,284)
	TOTAL FY2018 PROJECTS	<u>10,150,000</u>	<u>3,279,980</u>	<u>5,835,000</u>	<u>1,712,784</u>	<u>(842,236)</u>
<b><u>FY2019 PROJECTS</u></b>						
BAIM19CIP1	MONGAMI ROAD IMPROVEMENT	500,000	-	125,000	355,395	230,395
BAIM19CIP2	COMPACT MELTELATEL ROAD IMP	500,000	-	75,000	187,100	112,100
BMEL19CIP1	NGERUBSANG-DISP ROAD	880,000	-	150,000	444,658	294,658
BNGS19CIP1	NGCHESAR STATE ROAD IMPROVEMENT	300,000	-	30,000	-	(30,000)
BNGS19CIP2	NGERSUUL ROAD IMPROVEMENT	200,000	-	20,000	44,785	24,785
BNGS19CIP3	TABERNGESANG ROAD IMPROVEMENTS	200,000	-	20,000	-	(20,000)
BNGS19CIP4	KARMALIANG ROAD IMPROVEMENT	300,000	-	30,000	28,228	(1,772)
BNGT19CIP1	MECHEBECHUBEL ROAD IMPROVEMENTS	500,000	-	75,000	1,384	(73,616)
BNGT19CIP2	IBOBANG ROAD IMPROVEMENTS	500,000	-	75,000	72,097	(2,903)
BNGW19CIP1	NGIWAL STATE ROAD IMP FY19	840,000	-	142,500	499,304	356,804
BNGW19CIP2	NGIWAL WATER RESERVOIR FS PROJ	50,000	-	-	-	-
BNRD19CIP1	NGESANG-ELAB RD IMPROVEMENT	500,000	-	125,000	458,235	333,235
BNRD19CIP2	ELAB COMMUNITY CENTER	430,000	-	240,000	430,178	190,178
BNRD19CIP3	ULIMANG-NGKEKLAU ROAD IMPROVEME	500,000	-	50,000	-	(50,000)
BNRD19CIP4	NGARAARD ROAD-CHOLL	250,000	-	-	105,151	105,151
J19CIP0001	BPS SURVEILLANCE PHASE 2	500,000	-	-	433,219	433,219
P19ROC0021	PRESIDENT'S DAY ACTIVITIES	20,000	-	-	17,149	17,149
R19CIP0001	CHILDREN'S PLAYGROUND PROJECT	350,000	-	-	-	-
R19CIP0002	ONE STOP SHOP PHASE II CON'T	2,200,000	-	-	-	-
	TOTAL FY2019 PROJECTS	<u>9,520,000</u>	<u>-</u>	<u>1,157,500</u>	<u>3,076,883</u>	<u>1,919,383</u>
<b><u>FY2020 PROJECTS</u></b>						
BNGW20CIP1	NGIWAL STATE HEAVY EQUIPMENT	100,000	-	-	-	-
BNSG20CIP1	NGRIIL ABAI PROJECT	400,000	-	-	-	-
F20CIP0001	GOVERNMENT SERVICE NETWORK	400,000	-	-	344,000	344,000
	TOTAL FY2020 PROJECTS	<u>900,000</u>	<u>-</u>	<u>-</u>	<u>344,000</u>	<u>344,000</u>
	Total Republic of China Taiwan Capital Improvement Projects	<u>34,668,924</u>	<u>6,528,790</u>	<u>11,432,000</u>	<u>6,356,685</u>	<u>1,453,475</u>
	Reconciliation to financial statements:					
	Operating transfers out:					
F17ADMCIP1	General Management Support 17					(154,327)
	Operating transfers in:					
F16ADMCIP1	General Management Support					<u>106,614</u>
	Total Receivable from Grantor					<u>1,405,762</u>

**REPUBLIC OF PALAU**

OTHER COUNTRY CIP FUND

Schedule of Expenditures of Other Non-U.S. CIP Grants  
Year Ended September 30, 2020

Fund 4030 Grantor Account Title	Project	Authorization	Receivable from Grantor (Deferred Revenue) at 09/30/2019	Cash Receipts FY 2020	Expenditures FY 2020	Receivable from Grantor (Deferred Revenue) at 09/30/2020
<b>UNDP</b>						
Disaster Preparedness	R20UNDP001	267,000	-	108,454	72,893	(35,561)
		<u>267,000</u>	<u>-</u>	<u>108,454</u>	<u>72,893</u>	<u>(35,561)</u>
<b>Local</b>						
Ngatpang Community Center Project	BNGT20CIP1	150,000	-	150,000	-	(150,000)
		<u>150,000</u>	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>(150,000)</u>
<b>Total Other Country CIP Fund</b>		<b><u>417,000</u></b>	<b><u>-</u></b>	<b><u>258,454</u></b>	<b><u>72,893</u></b>	<b><u>(185,561)</u></b>

See Accompanying Independent Auditors' Report.