

*Financial Statements, Required Supplementary
Information, and Supplementary and Other Information*

Republic of Palau

*Year ended September 30, 2021
with Report of Independent Auditors*



Republic of Palau

Financial Statements, Required Supplementary Information, and Supplementary and Other Information

Year ended September 30, 2021

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Financial Statements, Required Supplementary Information, and
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Year ended September 30, 2021

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Report of Independent Auditors

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, 2021, 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 conformity with U.S. generally accepted accounting principles; 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 National Development Bank of Palau, the Palau Community College, the Palau National Communications Corporation, the Palau International Coral Reef Center, the Palau Public Utilities Corporation, the Palau Housing Authority, the Protected Areas Network Fund, and the Belau Submarine Cable Corporation, which represent 99% and 100%, respectively, of the assets and net position as of September 30, 2021, and 97% of the program revenues of the Republic's discretely presented component units for the year then ended. Those financial 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 National Development Bank of Palau, the Palau Community College, the Palau National Communications Corporation, the Palau International Coral Reef Center, the Palau Public Utilities Corporation, the Palau Housing Authority, the Protected Areas Network Fund, and the Belau Submarine Cable Corporation, 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic as of September 30, 2021, and the respective changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles 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 91 and 92, the Schedule of the Proportionate Share of the Net Pension Liability, on page 93, and the Schedule of Pension Contributions, on page 94, 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, which 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 GAAS, 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.

Supplementary 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 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.

Such 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. The 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 GAAS by us. In our opinion, such information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

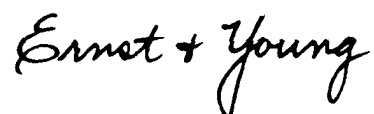
Other Information

Management is responsible for the other information included in the basic financial statements. The other information as set forth in Section VI of the foregoing table of contents does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2024 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.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

November 18, 2024

Republic of Palau

Management's Discussion and Analysis

Year ended September 30, 2021

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, 2021. We encourage readers to consider the information presented here in conjunction with the Republic's basic financial statements, which follow this section. Fiscal year 2020 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 \$265.5 million (net position), increasing by \$8.9 million (or 3%) from prior year net position of \$256.6 million. Of this amount, \$131.7 million represents the Republic's investment in capital assets; \$345.9 million represents amounts restricted for various purposes, with the remaining deficiency of \$212.1 million to be funded from future governmental activities.

During the current fiscal year, the Republic's expenses for governmental activities were \$169.1 million and were funded, in part, by \$77.3 million in program revenues and \$42.3 million in taxes and other general revenues. Program revenues increased by \$4.5 million (or 6%) from \$72.8 million in the prior year to \$77.3 million, which was attributable primarily to the increase in grants and contributions. Taxes and other general revenues decreased by \$2.3 million (or 5%) from \$44.6 million in the prior year to \$42.3 million, which was attributable primarily to the decrease in tax receipts partially offset by the increase in other receipts. Expenses decreased marginally by \$0.8 million (or 0.3%) from \$169.9 million in the prior year to \$169.1 million, which was attributable primarily to the increase in general government expenses.

The Compact Section 211(f) Trust Fund generated a net gain of \$58.3 million in the current fiscal year offset by an appropriation of \$15 million representing the transfer out to the General Fund as budgetary support, increasing the Republic's trust fund balance by \$43.3 million (or 15%) to \$317.5 million from \$275.2 million in the prior year.

For the current fiscal year, General Fund revenues (and other financing sources) of \$104 million exceeded General Fund expenditures (and other financing uses) of \$103.7 million by \$0.3 million (or 0.3%). General Fund revenues (and other financing sources) decreased by \$27.4 million (or 20%) compared with prior year primarily due to a \$23.8 million reduction in Asian Development Bank loan proceeds received in 2021 compared with 2020. General Fund appropriations (and other financing uses) decreased by \$10.7 million (or 8%) compared with prior year primarily due to a \$4.5 million reduction in payments to component units and a \$3.1 million reduction in transfers out to other funds.

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.

Republic of Palau

Management's Discussion and Analysis, continued

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 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.

The two government-wide financial statements report on 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 need 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 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 if there are more or fewer financial resources that can be utilized in the near future to finance the Republic's programs.

Republic of Palau

Management's Discussion and Analysis, continued

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 like 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.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons and GASB Statement No. 68 pension reporting.

Supplementary Information

The other supplementary information referred to earlier is presented immediately following the required supplementary information on budgetary comparisons and comprises of combining governmental fund schedules reporting for the General Fund, Grants Fund, Permanent Fund, and Special Revenue Funds.

Other Information

The other information referred to earlier is presented immediately following the supplementary information on the various governmental funds and comprises of detailed General Fund 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 \$265.5 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 \$92.9 million while its current liabilities were \$27 million. Restricted net position represents resources that are subject to external constraints.

Republic of Palau
Management's Discussion and Analysis, continued

Net Position, continued

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

The Republic's Net Position As of September 30				
	Governmental Activities 2021	Governmental Activities 2020	Total \$ Change 2021-2020	Total % Change 2021-2020
Current and other assets	\$ 480,048,231	\$ 437,967,408	\$ 42,080,823	10%
Capital assets	133,355,589	131,880,093	1,475,496	1%
Total assets	613,403,820	569,847,501	43,556,319	8%
Deferred outflows of resources	64,278,770	59,810,076	4,468,694	7%
Long-term debt outstanding	145,397,762	115,912,126	29,485,636	25%
Current and other liabilities	237,474,380	220,905,850	16,568,530	8%
Total liabilities	382,872,142	336,817,976	46,054,166	14%
Deferred inflows of resources	29,280,499	36,192,995	(6,912,496)	(19)%
Net position:				
Net investment in capital assets	131,755,551	129,822,915	1,932,636	1%
Restricted	345,911,868	296,908,957	49,002,911	17%
Unrestricted	(212,137,470)	(170,085,266)	(42,052,204)	25%
Total net position	\$ 265,529,949	\$ 256,646,606	\$ 8,883,343	3%

At the end of the current fiscal year, the Republic's unrestricted net position deficiency was \$212.1 million, an increase from the prior year amount by \$42 million (or 25%). 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, the net position of the primary government increased by \$8.9 million, representing an increase of 3% from the prior year's amount of \$256.6 million. This result indicates that the Republic's financial condition improved a little from the prior year, mainly due to the Compact Trust Fund contribution. Although local revenues declined, the government continued to borrow to cover the revenue shortfall, and increased subsidies to SOEs and State Governments in an effort to boost the economy.

The table below summarizes the Republic's change in net position for the current fiscal year as compared with the prior year.

Republic of Palau
Management's Discussion and Analysis, continued

Changes in Net Position, continued

The Republic's Changes in Net Position
For the Years Ended September 30

	Governmental Activities 2021	Governmental Activities 2020	Total \$ Change 2021-2020	Total % Change 2021-2020
Revenues:				
Program revenues:				
Charges for services	\$ 16,625,512	\$ 19,127,810	\$ (2,502,298)	(13)%
Operating grants and contributions	41,230,991	40,886,929	344,062	1%
Capital grants and contributions	19,482,014	12,803,324	6,678,690	52%
	<u>77,338,517</u>	<u>72,818,063</u>	<u>4,520,454</u>	6%
General revenues:				
Taxes	38,615,167	42,597,532	(3,982,365)	(9)%
Other general revenues	3,679,311	2,046,643	1,632,668	80%
	<u>42,294,478</u>	<u>44,644,175</u>	<u>(2,349,697)</u>	(5)%
Total revenues	<u>119,632,995</u>	<u>117,462,238</u>	<u>2,170,757</u>	2%
Expenses:				
General government	71,552,867	71,136,421	416,446	1%
Education	19,539,997	19,733,226	(193,229)	(1)%
Health and welfare	28,442,523	28,941,800	(499,277)	(2)%
Public safety	11,837,523	12,235,076	(397,553)	(3)%
Cultural affairs and recreation	1,154,664	3,090,381	(1,935,717)	(63)%
Transportation and commerce	22,863,926	16,671,986	6,191,940	37%
State government appropriationsJustice, immigration and labor	11,930,468	16,754,932	(4,824,464)	(29)%
Depreciation - unallocated	949,409	790,361	159,048	20%
Interest	828,807	573,755	255,052	44%
Total expenses	<u>169,100,184</u>	<u>169,927,938</u>	<u>(827,754)</u>	(0)%
	<u>(49,467,189)</u>	<u>(52,465,700)</u>	<u>2,998,511</u>	(6)%
Contributions to permanent funds	58,350,532	10,192,768	48,157,764	472%
Change in net position	8,883,343	(42,272,932)	51,156,275	121%
Net position, beginning of year	<u>256,646,606</u>	<u>298,919,538</u>	<u>(42,272,932)</u>	(14)%
Net position, end of year	<u>\$ 265,529,949</u>	<u>\$ 256,646,606</u>	<u>\$ 8,883,343</u>	3%

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

- Total revenues increased by \$2.2 million (or 2%) compared with prior year. Program revenues increased by \$4.5 million (or 6%) as compared with prior year while general revenues decreased by \$2.3 million (or 5%) as compared with prior year. The increase in program revenues reflects a \$6.7 million (or 52%) increase in capital grants and contributions and a \$0.3 million (or 1%) increase in operating grants and contributions offset by a \$2.5 million (or 13%) decrease in charges for services. The increase in grants and contributions reflects the receipt of donor grant funds to fund COVID-19 pandemic mitigation costs and airport improvement project costs.
- At the same time, cost of governmental activities marginally decreased in the current year by \$0.8 million (or 0.4%) as compared with prior year, which was attributable primarily to an increase in mitigation expenses associated with the COVID-19 pandemic offset by a reduction in other operational costs.

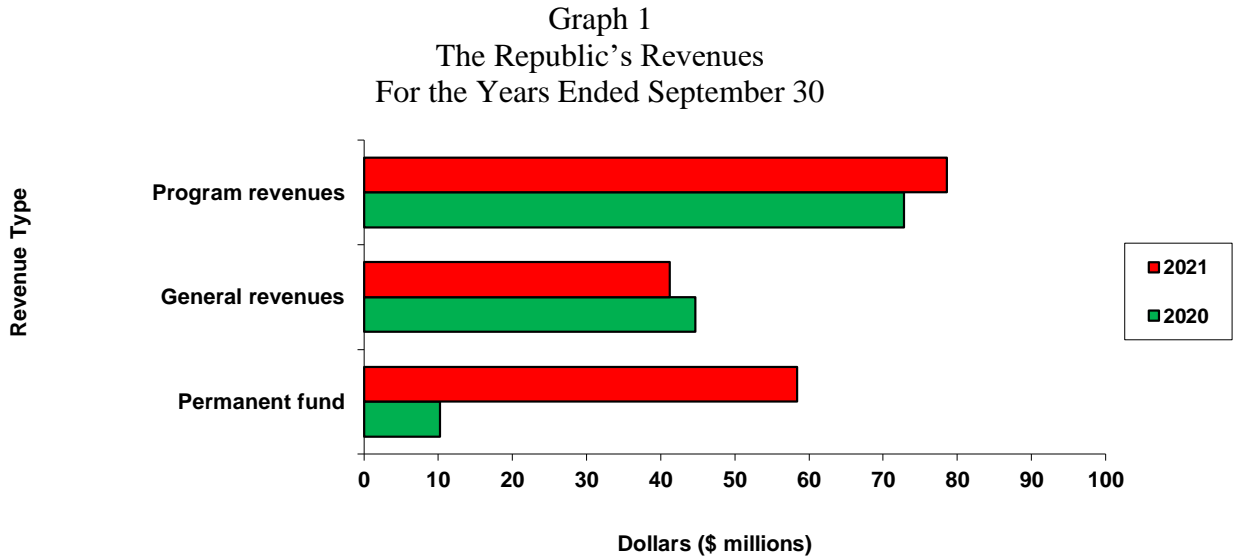
Republic of Palau

Management’s Discussion and Analysis, continued

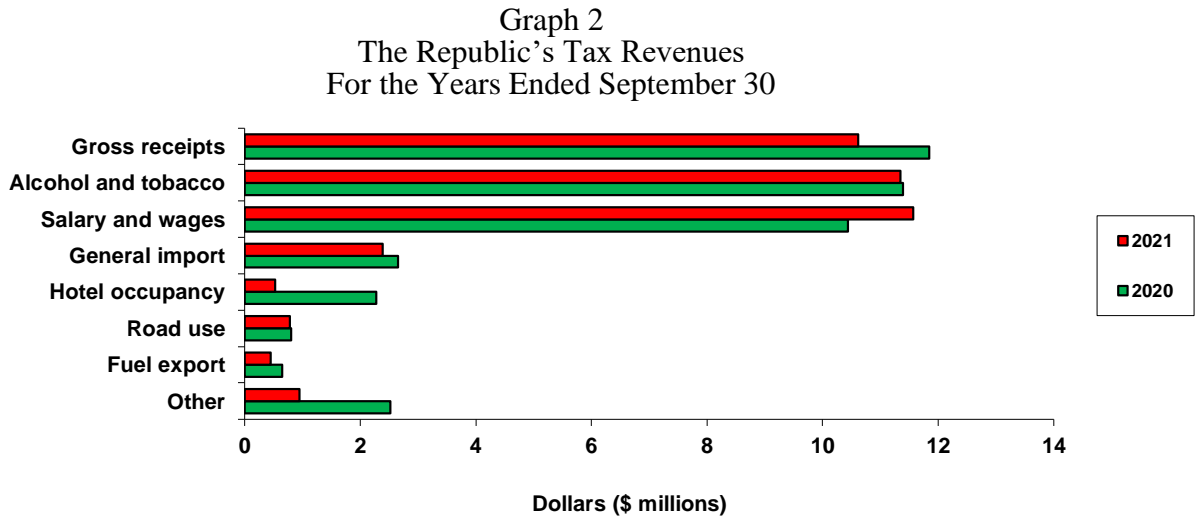
Changes in Net Position, continued

- The Compact Section 211(f) Trust Fund contributions of \$58.4 million increased by \$48.2 million (or 472%) from the prior fiscal year when the trust fund earnings contributed \$10.2 million. Overall, revenues increased in the current year by \$3.9 million (or 3%). Concurrently total expenses increased by \$0.5 million (or 0.3%) 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 \$38.6 million in the current year, tax revenues were lower than the \$42.6 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:



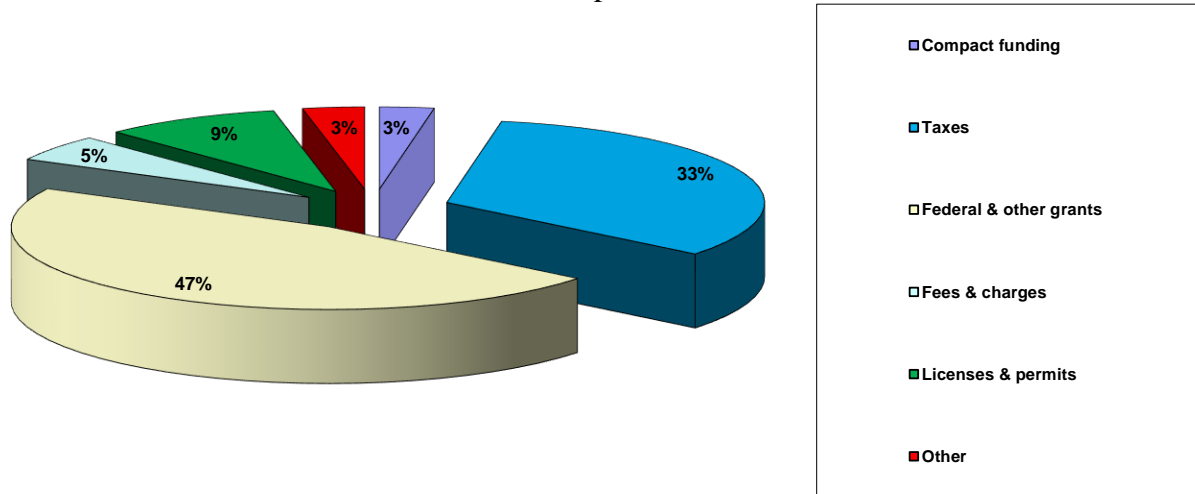
Republic of Palau

Management's Discussion and Analysis, continued

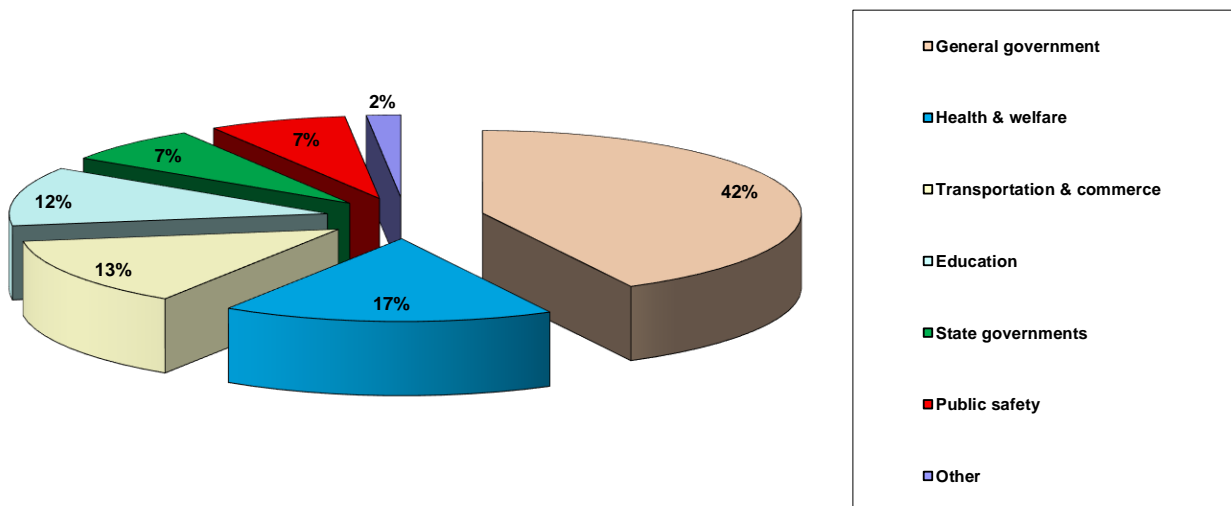
Changes in Net Position, continued

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

Graph 3
The Republic's Revenue Sources
For the Year Ended September 30, 2021



Graph 4
The Republic's Cost of Governmental Activities
For the Year Ended September 30, 2021



Compact funding, local taxes and Federal and other grants are the major sources of revenue for the Republic, which comprise 83% of total revenues for the current year. The remaining 17% is primarily comprised of various fees and service charges. Other expenses that make up a portion of the costs of governmental activities include State government appropriations (\$11.9 million), unallocated depreciation expense (\$0.9 million), and interest expense (\$0.8 million).

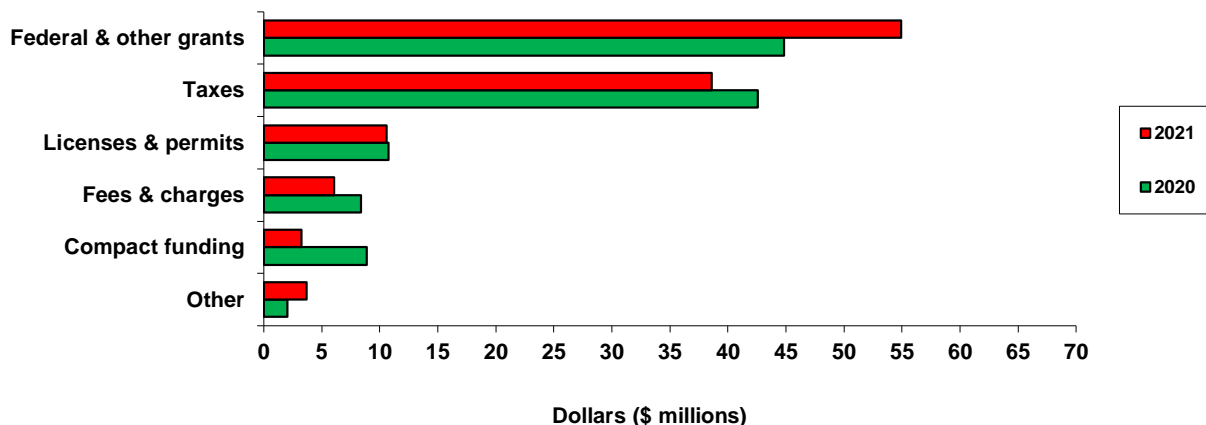
Republic of Palau

Management's Discussion and Analysis, continued

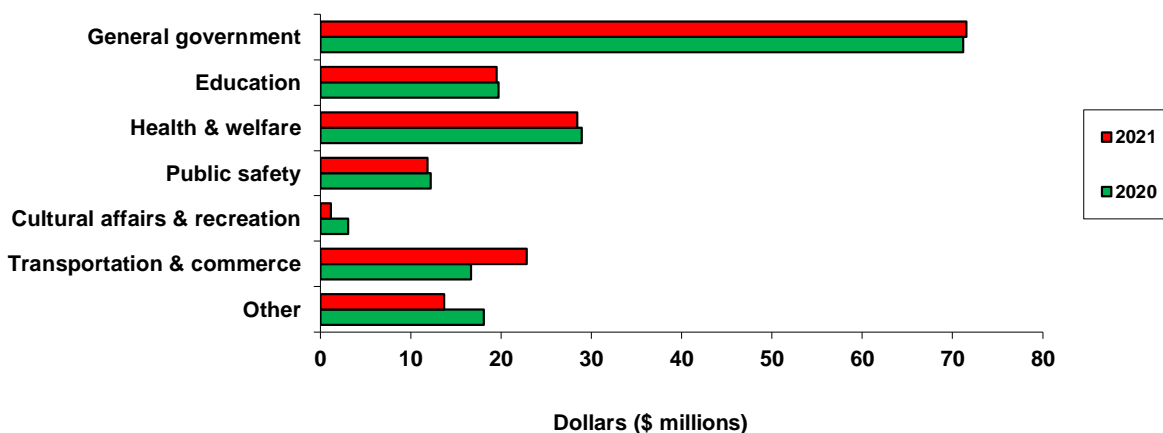
Changes in Net Position, continued

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2021 and 2020.

Graph 5
The Republic's Revenue Sources
For the Years Ended September 30



Graph 6
The Republic's Cost of Governmental Activities
For the Years Ended September 30



Other expenses in the current year include State government appropriations of \$11.9 million, which decreased by \$4.8 million from the prior year. Overall cost of governmental activities decreased by \$0.8 million (or 0.3%) compared to the prior fiscal year.

General revenues decreased by \$2.3 million (or down 5.3%) from the previous fiscal year. The decrease was primarily due to the decrease of general revenue collections of \$4 million (or down 9.3%) compared with prior year.

Republic of Palau

Management's Discussion and Analysis, continued

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 \$456.8 million, which represents an increase of \$49.4 million (or 12.1%) in comparison with the prior year. Of this total combined fund balance, \$384.4 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, \$21 million is designated as restricted and is constrained for specific purposes which are externally imposed, and \$24.4 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 \$27 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 \$27.1 million. Total fund balance was \$111 million compared with a total fund balance of \$110.7 million at the end of the prior fiscal year.

The Compact Section 211(f) Trust Fund has a total fund balance of \$317.5 million, all of which is restricted for the funding of future operations of the primary government. The net increase in fund balance during the current year in the Compact Section 211(f) Trust Fund was \$42.3 million (or 15.4%), 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 \$57.3 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, budget revisions of \$5.9 million were made by management and elected officials of the Republic to the General Fund budget. Revenues collected (including other financing sources) of \$99.2 million were slightly higher than budgeted amounts of \$96.5 million. In addition, charges to appropriations (including other financing uses) of \$100.6 million were lower than budgeted amounts of \$105 million due primarily to expenditures associated with the executive branch and other appropriations of \$44.6 million and \$15 million, respectively, which were lower than budgeted amounts of \$49.8 million and \$16.7 million, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Republic's investment in capital assets for its governmental activities as of September 30, 2021, amounted to \$513.5 million (including \$16.9 million of land and construction in progress), net of accumulated depreciation of \$380.1 million, leaving a net book value of \$133.4 million. This represents an increase of \$1.5 million from the amount of \$131.9 million reported in the prior year. The Republic's capital assets include machinery and equipment, vehicles, infrastructure, roads, bridges, buildings, land and various projects under construction.

Republic of Palau
Management's Discussion and Analysis, continued

Capital Assets, continued

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

**The Republic's Capital Assets
September 30,
(Net of depreciation)**

	Governmental Activities 2021	Governmental Activities 2020	Total \$ Change 2021-2020	Total % Change 2021-2020
Buildings and other improvements	\$ 62,609,434	\$ 68,814,038	\$ (6,204,604)	(9)%
Machinery and equipment	32,467,544	28,143,275	4,324,269	15%
Vehicles	1,529,873	1,845,329	(315,456)	(17)%
Infrastructure	19,897,755	20,157,153	(259,398)	(1)%
Land	3,899,403	3,899,403	-	0%
Construction in progress	12,951,580	9,020,895	3,930,685	44%
Total	\$ 133,355,589	\$ 131,880,093	\$ 1,475,496	1%

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

- Ongoing construction in progress of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Total To Date (\$ millions)</u>
New Correctional Facility	\$ 0.56	\$ 2.79
One Stop Shop (Phase 1)	\$ 2.68	\$ 3.45
Angaur Dock Project (COFA)	\$ 1.00	\$ 2.28
Airport Runway Drainage Project	\$ 3.41	\$ 3.41

- Completion of the following infrastructure projects:

Koror-Airai Road	\$ 0.88	\$ 0.88
Melekeok Road	\$ 0.58	\$ 0.58
Ngaraard Road	\$ 0.83	\$ 0.83
Ngatpang Road	\$ 0.97	\$ 0.97
Ngchesar Road	\$ 0.75	\$ 0.75
Ngiwal Road	\$ 0.53	\$ 0.53

- \$2.9 million acquisition of the Ministry of Finance FMIS, \$1.2 million acquisition of the Ministry of Justice Surveillance Management System, and \$0.9 million acquisition of Capitol generator.

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

Republic of Palau

Management's Discussion and Analysis, continued

Long-term Debt

The Republic has entered into sixteen separate loans with the Mega International Commercial Bank and the Asian Development bank (ADB). Long-term debt obligations increased by \$29.5 million (or 25%) in the current fiscal year. The table below summarizes the Republic's long-term debt at the close of the current year compared with prior year.

The Republic's Outstanding Debt September 30,

	Governmental Activities 2021	Governmental Activities 2020	Total \$ Change 2021-2020	Total % Change 2021-2020
Asian Development Bank:				
Water Sector Improvement # 1	\$ 6,490,389	\$ 7,584,864	\$ (1,094,475)	(14)%
Water Sector Improvement # 2	2,556,775	2,756,073	(199,298)	(7)%
Koror-Airai Sanitation Project # 1	20,859,790	19,553,861	1,305,929	7%
Koror-Airai Sanitation Project # 2	1,641,378	1,716,000	(74,622)	(4)%
North Pacific Regional Connectivity Investment # 1	13,746,895	13,341,068	405,827	3%
North Pacific Regional Connectivity Investment # 2	7,073,924	6,903,081	170,843	2%
Disaster Resilience Program	15,000,000	15,000,000	-	0%
Health Expenditures and Livelihoods Support	20,000,000	20,000,000	-	0%
Palau Public Utilities Corporation Reform # 1	5,000,000	-	5,000,000	
Recovery through Improved Systems Support # 1	5,000,000	-	5,000,000	
Recovery through Improved Systems Support # 2	20,000,000	-	20,000,000	
Mega International Commercial Bank:				
Palau International Airport Repaving Project	1,600,038	2,057,178	(457,140)	(22)%
Agriculture and Aquaculture Development Project	4,142,858	4,428,572	(285,714)	(6)%
Housing Project	4,285,715	4,571,429	(285,714)	(6)%
Housing Loan	15,000,000	15,000,000	-	0%
International Cooperation Development Fund:				
Women and Youth Entrepreneurs	3,000,000	3,000,000	-	0%
Total	\$ 145,397,762	\$ 115,912,126	\$ 29,485,636	25%

As mentioned above, total long-term debt increased by \$29.5 million (or 25%) during the current year, which represents long-term debt additions of \$33.7 million offset by declining principal balances associated with ADB debt service payments of \$3.2 million and MICB debt service payments of \$1 million. The long-term debt additions during the current year included ADB debt associated with post-COVID 19 economic recovery loans in the original amount of \$25 million and the Palau Public Utilities Corporation reform loan in the original amount of \$5 million. 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

The global pandemic has cascaded onto Palau as its effect has been felt in the macro, sectoral, household and firm levels. In FY2021, the economy experienced a huge decline of 13.3% as the full force of the collapse in the tourism economy was felt. Palau's reliance on tourism creates important challenges as tourism is highly susceptible to global economic and financial conditions. Despite the economic hardships in FY2021, construction activities surprisingly remained stable in both public and private sector. The mitigation programs including both the CROSS and CARES Acts were extended throughout the FY2021. These developments, together with the preparation and hosting activities of the 2022 Our Ocean Conference was expected to stimulate growth in the near term.

Republic of Palau

Management's Discussion and Analysis, continued

The resumption of the travel bubble with Taiwan and a weekly flight from Guam in FY2021, tourist arrivals was at 3,412, a 91.8% drop compared to FY2020. However, with nearly 100% of the population vaccinated along with the economic impact mitigation measures in place, tourism activities are expected to recover in the medium term. The level of visitors to Palau is projected to reach pre-pandemic levels until FY2026 when the number of visitors is projected to reach 110,800.

In FY2021, inflation was estimated at 0.5%, largely driven by the price change of health, personal care, education & services. While food prices recorded a 1.2% increase compared with a year earlier, the impact of increasing fuel prices after the depressed levels at the start of the pandemic exerting upward pressure in at the end of FY2021 into FY022. Inflation is expected to continue to elevate, with ongoing supply chain disruptions and high energy prices in FY2022. Due to Palau's high reliance on imports, prices are highly volatile. The increase in global commodity prices, transportation costs, supply bottlenecks as well as fuel prices due to the global pandemic are estimated to increase inflation in the domestic market.

Revenue in FY2021 had fallen by 5% compared with the pre-pandemic levels of FY2019. However, the composition of revenue changed significantly with reduced tax effort being offset by increases in grants. The impact on tax revenues largely reflected the impact of the pandemic on the economy and fell by 21% in FY2021 compared with FY2019. Wage taxes fell by 8%, reflecting the lay-off of tourism-related workers and reduced working hours. However, overall wage tax collections held surprisingly firm reflecting the composition of employment and that high wage earners are largely employed in the public sector which was unaffected by the pandemic. Gross receipts taxes fell by a large 18%, reflecting the importance of tourism activities and the hotel room occupancy tax fell from \$3.6 million in FY2019 to \$0.5 million in FY2021. Taxes on international trade or import taxes rose by 11% over the two years reflecting greater spending on infrastructure and helped maintain the revenue base. Other taxes largely relating to entry fees paid by travelers entering Palau (PPEF - Pristine Paradise Environmental Fee) fell from \$3.7 million to \$0.5 million. Tax effort thus remained largely as anticipated given the impact on the economy of COVID-19, and compliance remained strong despite pressures to provide tax breaks to the private sector.

Expenditures grew by 25% in FY2021 compared with FY2019. In response to the COVID-19 global pandemic, it would be expected that expenses would increase as greater outlays were required to fund the various mitigation efforts. Large increases also occurred in subsidies to SOEs, transfers to state governments, social insurance and pension sector, and funding for housing. Payroll expenses grew modestly by 1.9% in FY2021 compared with FY2019, although introduction of a new financial management system makes interpretation problematic. Payroll represented 44% of expenses in FY2019 before the pandemic, but payroll growth was modest between FY2019 and FY2021, growing by 1.9%.

The fiscal policy stance assumed to remain in line with the FY2022 budget and to remain in place through FY2023 until recovery is established. The projections assume the provisions of the FY2022 budget remain in force and the 10% reduction in appropriations, estimated to be \$5.2 million, is maintained. Given the weak fiscal outlook, it is assumed that no increase in departmental budgets is allowed in FY2023, but that in FY2024 the 10% reduction is restored. It is expected that recovery gets well under way in FY2025 as there is full restoration for the erosion of expenditures due to inflation since FY2019 including the recent spike.

Republic of Palau

Management's Discussion and Analysis, continued

To accelerate the emerging recovery of the economy is through a two-pronged approach of strong support to the private sector and enhanced public sector services. As the economy slowly recovers, the longer-term economic growth will be targeted through implementation of the high value tourism strategy. In addition, results of extensive borrowing for deficit financing and an improved fiscal position are better than expected; the government's cash flow position has remained strong. The implementation of Palau Goods and Services Tax (PGST) in FY2023 will have a favorable improvement of fiscal outturn. Construction demand is projected to grow strongly in the medium-term reflecting resolution of a large pool of projects in the pipeline and the new Compact Review Agreement (CRA-23). Construction is anticipated to be a major contributor to economic growth in the post pandemic era.

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, 2021

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 48,350,818	\$ 29,684,718
Investments	14,536,225	6,439,913
Receivables, net of allowance for uncollectibles	24,602,907	12,543,159
Inventories	---	11,927,201
Due from component units	2,961,381	---
Due from external parties	1,577,290	---
Other current assets	853,557	1,473,836
Total current assets	<u>92,882,178</u>	<u>62,068,827</u>
Noncurrent assets:		
Investments	---	2,353,857
Receivables	---	32,776,595
Capital assets:		
Nondepreciable capital assets	16,850,984	27,220,479
Capital assets, net of accumulated depreciation	116,504,605	80,430,554
Indefeasible right of use	---	5,622,110
Foreclosed real estate	---	347,188
Due from component units	56,890,557	---
Right-to-Use lease asset	5,698,053	---
Other noncurrent assets	1,191,965	---
Restricted cash and cash equivalents	---	4,534,873
Restricted investments	323,385,478	7,557,306
Total noncurrent assets	<u>520,521,642</u>	<u>160,842,962</u>
Total assets	<u>613,403,820</u>	<u>222,911,789</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows from pensions	<u>64,278,770</u>	<u>20,446,664</u>
	<u>\$ 677,682,590</u>	<u>\$ 243,358,453</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ 6,335,057	\$ 2,108,531
Current portion of compensated absences payable	1,877,286	---
Accounts payable	5,293,602	6,727,457
Contracts payable	2,553,150	---
Retention payable	894,564	---
Due to State governments	415,684	---
Due to primary government	---	2,961,381
Due to fiduciary funds	---	353,352
Accrued payroll and others	3,916,306	2,130,961
Unearned revenue	2,722,518	4,219,696
Beverage container tax refund payable	1,167,543	---
Other liabilities	646,428	2,803,759
Income tax refunds	745,761	---
Total current liabilities	<u>26,567,899</u>	<u>21,305,137</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	139,062,705	17,519,445
Compensated absences payable, net of current portion	3,271,328	---
Net pension liability	213,970,210	61,974,711
Due to primary government	---	56,890,557
Due to fiduciary funds	---	1,377,607
Total noncurrent liabilities	<u>356,304,243</u>	<u>137,762,320</u>
Total liabilities	<u>382,872,142</u>	<u>159,067,457</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflows from pensions	<u>29,280,499</u>	<u>8,339,625</u>
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	131,755,551	51,003,956
Restricted for:		
Future operations	323,385,478	---
Endowment	---	7,605,126
Debt service	---	250,171
Compact related	3,642,525	---
Other purposes	18,883,865	11,094,153
Unrestricted	(212,137,470)	5,997,965
Total net position	<u>265,529,949</u>	<u>75,951,371</u>
	<u>\$ 677,682,590</u>	<u>\$ 243,358,453</u>

See accompanying notes.

Republic of Palau

Statement of Activities

Year ended September 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
General government	\$ 71,552,867	\$ 14,028,982	\$ 25,458,873	\$ 11,519,983	\$ (20,545,029)	\$ ---
Education	19,539,997	551,067	2,336,040	---	(16,652,890)	---
Health and welfare	28,442,523	1,983,264	9,812,692	---	(16,646,567)	---
Public safety	11,837,523	62,195	1,902,760	---	(9,872,568)	---
Cultural affairs and recreation	1,154,664	---	130,739	---	(1,023,925)	---
Transportation and commerce	22,863,926	4	1,589,887	7,962,031	(13,312,004)	---
State government appropriations	11,930,468	---	---	---	(11,930,468)	---
Depreciation - unallocated	949,409	---	---	---	(949,409)	---
Interest (unallocated)	828,807	---	---	---	(828,807)	---
Total primary government	\$ 169,100,184	\$ 16,625,512	\$ 41,230,991	\$ 19,482,014	(91,761,667)	---
Component units:						
National Development Bank of Palau	\$ 1,919,126	\$ 2,635,127	\$ 500,000	\$ 3,255,342	---	4,471,343
Palau Community College	7,134,587	1,152,304	5,086,005	---	---	(896,278)
Palau National Communications Corporation	15,261,122	11,646,577	427,283	---	---	(3,187,262)
Palau International Coral Reef Center	1,872,093	416,168	564,644	---	---	(891,281)
Palau Visitors Authority	1,425,691	161,782	1,426,000	---	---	162,091
Palau Public Utilities Corporation	29,114,382	18,583,232	233,825	---	---	(10,297,325)
Palau Housing Authority	395,428	---	---	2,130,373	---	1,734,945
Protected Areas Network Fund	1,250,747	---	510,741	---	---	(740,006)
Belau Submarine Cable Corporation	2,666,822	3,086,840	---	---	---	420,018
Total component units	\$ 61,039,998	\$ 37,682,030	\$ 8,748,498	\$ 5,385,715	---	(9,223,755)
General revenues:						
Taxes:						
Business gross receipts					10,613,229	---
Salary and wage					11,565,582	---
Alcohol and tobacco					11,340,629	---
Hotel occupancy					525,616	---
General import					2,386,960	---
Road use					782,650	---
Fuel export					455,169	---
Other					945,332	---
Unrestricted investment earnings					1,837,273	2,740,450
Contributions from primary government					---	3,566,944
Other					1,842,038	297,134
Total general revenues					42,294,478	6,604,528
Contributions from permanent funds					58,350,532	---
Total general revenues and contributions					100,645,010	6,604,528
Change in net position					8,883,343	(2,619,227)
Net position at beginning of year					256,646,606	78,570,598
Net position at end of year					\$ 265,529,949	\$ 75,951,371

See accompanying notes.

Republic of Palau
Balance Sheet
Governmental Funds
September 30, 2021

	General	Special Revenue Grants	Permanent Funds	Other Governmental Funds	Total
<u>ASSETS</u>					
Cash and cash equivalents	\$ 47,172,980	\$ 1,177,838	\$ ---	\$ ---	\$ 48,350,818
Investments	11,438,184	---	---	3,098,041	14,536,225
Receivables, net:					
Taxes	4,095,649	---	---	---	4,095,649
General	799,950	7,042,003	---	58,719	7,900,672
Federal agencies	---	12,606,586	---	---	12,606,586
Due from component units	59,851,938	---	---	---	59,851,938
Due from other funds	15,500,144	7,084,899	---	11,625,661	34,210,704
Advances	7,190	1,800	---	---	8,990
Prepaid items	74,836	678,329	---	91,402	844,567
Other assets	1,191,965	---	---	---	1,191,965
Restricted assets:					
Investments	---	---	323,385,478	---	323,385,478
	<u>\$ 140,132,836</u>	<u>\$ 28,591,455</u>	<u>\$ 323,385,478</u>	<u>\$ 14,873,823</u>	<u>\$ 506,983,592</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 4,272,598	\$ 1,014,112	\$ ---	\$ 6,892	\$ 5,293,602
Contracts payable	104,076	2,449,074	---	---	2,553,150
Retention payable	---	894,564	---	---	894,564
Due to State governments	415,684	---	---	---	415,684
Due to other funds	18,710,560	13,922,167	---	687	32,633,414
Accrued payroll and others	2,751,598	103,751	---	2,788	2,858,137
Interest payable	259,042	---	---	---	259,042
Unearned revenues	29,000	2,693,518	---	---	2,722,518
Beverage container refund payable	1,167,543	---	---	---	1,167,543
Other liabilities and accruals	646,428	---	---	---	646,428
Income tax refunds	745,761	---	---	---	745,761
Total liabilities	<u>29,102,290</u>	<u>21,077,186</u>	<u>---</u>	<u>10,367</u>	<u>50,189,843</u>
Fund balances:					
Nonspendable	61,043,903	---	323,385,478	---	384,429,381
Restricted	15,222,481	5,816,863	---	---	21,039,344
Committed	7,706,325	1,856,936	---	14,864,143	24,427,404
Unassigned:					
General fund	27,057,837	---	---	---	27,057,837
Special revenue funds	---	(159,530)	---	(687)	(160,217)
Total fund balances	<u>111,030,546</u>	<u>7,514,269</u>	<u>323,385,478</u>	<u>14,863,456</u>	<u>456,793,749</u>
	<u>\$ 140,132,836</u>	<u>\$ 28,591,455</u>	<u>\$ 323,385,478</u>	<u>\$ 14,873,823</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	133,355,589
Right to Use in governmental activities are not financial resources and, therefore, are not reported in the funds	5,698,053
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	(145,397,762)
Compensated absences	(5,148,614)
Accrued interest payable	(799,127)
Net pension liability	(213,970,210)
	(365,315,713)
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	64,278,770
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	(29,280,499)
Net position of governmental activities	<u>\$ 265,529,949</u>

See accompanying notes.

Republic of Palau

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

Year ended September 30, 2021

	General	Special	Permanent	Other Governmental Funds	Total
		Revenue	Compact		
		Grants			
Revenues:					
Taxes	\$ 36,698,346	\$ ---	\$ ---	\$ 1,916,821	\$ 38,615,167
Federal and other grants	---	58,144,373	---	---	58,144,373
Net change in the fair value of investments	1,135,723	28,958	58,350,532	672,592	60,187,805
Fees and charges	3,799,819	---	---	2,264,953	6,064,772
Licenses and permits	10,555,635	---	---	5,105	10,560,740
Other	1,842,038	---	---	---	1,842,038
Total revenues	54,031,561	58,173,331	58,350,532	4,859,471	175,414,895
Expenditures:					
Current:					
Judicial Branch	3,133,147	---	---	---	3,133,147
Legislative Branch	5,786,434	---	---	---	5,786,434
Office of the President	1,242,549	---	---	---	1,242,549
Office of the Vice-President	605,103	---	---	---	605,103
Ministry of Finance	4,350,815	3	---	1,153	4,351,971
Ministry of State	4,041,568	---	---	25,283	4,066,851
Ministry of Community and Cultural Affairs	568,065	196,484	---	---	764,549
Ministry of Education	8,674,302	2,909,263	---	---	11,583,565
Ministry of Public Infrastructure, Industry and Commerce	7,143,463	15,828,123	---	298,840	23,270,426
Ministry of Justice	6,418,914	1,947,445	---	81,228	8,447,587
Ministry of Health	11,823,295	10,999,520	---	1,591,299	24,414,114
Ministry of Natural Resources, Environment and Tourism	1,358,731	96,515	---	42,849	1,498,095
Boards, Commissions, and Authorities	1,138,115	---	---	---	1,138,115
State Governments	8,455,900	3,474,568	---	---	11,930,468
Independent Agencies	3,137,067	---	---	---	3,137,067
Payments to Component Units	22,706,922	130,000	---	46,400	22,883,322
Other Agencies and Activities	1,750,836	18,323,986	---	---	20,074,822
Education assistance	6,022,929	---	---	---	6,022,929
Capital projects	336,595	---	---	---	336,595
Debt service:					
Principal retirement	4,208,928	---	---	---	4,208,928
Interest	828,807	---	---	---	828,807
Total expenditures	103,732,485	53,905,907	---	2,087,052	159,725,444
Excess (deficiency) of revenues over (under) expenditures	(49,700,924)	4,267,424	58,350,532	2,772,419	15,689,451
Other financing sources (uses):					
Loan proceeds	33,694,564	---	---	---	33,694,564
Operating transfers in	16,315,786	600,000	---	1,221,228	18,137,014
Operating transfers out	---	(1,629,485)	(15,000,000)	(1,507,529)	(18,137,014)
Total other financing sources (uses), net	50,010,350	(1,029,485)	(15,000,000)	(286,301)	33,694,564
Net change in fund balances	309,426	3,237,939	43,350,532	2,486,118	49,384,015
Fund balances at beginning of year	110,721,120	4,276,330	280,034,946	12,377,338	407,409,734
Fund balances at end of year	\$ 111,030,546	\$ 7,514,269	\$ 323,385,478	\$ 14,863,456	\$ 456,793,749

See accompanying notes.

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, 2021

Net change in fund balances - total governmental funds \$ 49,384,015

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the current period. For the current year, these activities consist of:

Capital outlays, net of disposals	\$ 9,939,628	
Depreciation expense, net	<u>(8,464,132)</u>	1,475,496

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	\$(33,694,564)	
Repayment of MICB loans	1,028,570	
Repayment of ADB loan	<u>3,180,358</u>	(29,485,636)

Long term prepayments are not reported in the governmental funds:

Amortization		(247,622)
--------------	--	-----------

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	\$ 132,177	
Net pension activity	<u>(12,375,087)</u>	(12,242,910)

Change in net position of governmental activities. \$ 8,883,343

Republic of Palau
Statement of Fiduciary Net Position
Fiduciary Funds

September 30, 2021

	Custodial	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ ---	\$ 3,578,151	\$ 3,108,214	\$ 6,686,365
Receivables, net	1,577,290	2,560,576	2,243,804	6,381,670
Investments	---	138,825,938	31,425,570	170,251,508
Due from component units	---	1,730,959	---	1,730,959
Prepaid items	---	8,624	---	8,624
Capital assets, net	---	867,511	19,083	886,594
Total assets	1,577,290	147,571,759	36,796,671	185,945,720
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred outflows from pensions	---	979,213	298,580	1,277,793
	\$ 1,577,290	\$ 148,550,972	\$ 37,095,251	\$ 187,223,513
<u>LIABILITIES</u>				
Benefits payable	\$ ---	\$ 1,049,733	\$ ---	\$ 1,049,733
Due to other funds	1,577,290	---	---	1,577,290
Other liabilities and accruals	---	46,474	165,683	212,157
Net pension liability	---	3,685,527	1,027,697	4,713,224
Total liabilities	1,577,290	4,781,734	1,193,380	7,552,404
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred inflows from pensions	---	496,258	233,200	729,458
<u>NET POSITION</u>				
Held in trust for:				
Social security benefits	---	143,272,980	---	143,272,980
Pension benefits	---	---	35,668,671	35,668,671
Total net position	---	143,272,980	35,668,671	178,941,651
	\$ 1,577,290	\$ 148,550,972	\$ 37,095,251	\$ 187,223,513

See accompanying notes.

Republic of Palau

Statement of Changes in Fiduciary Net Position
Fiduciary Funds

Year ended September 30, 2021

	<u>Custodial</u>	<u>Private Purpose Trust</u>	<u>Pension (and Other Employee Benefit) Trust</u>	<u>Total</u>
Additions:				
Contributions:				
Government employees	\$ ---	\$ 13,095,767	\$ ---	\$ 13,095,767
Private employees	---	9,396,830	---	9,396,830
Retirees and disabled individuals	---	664,215	---	664,215
Employer contributions	---	---	3,653,872	3,653,872
Plan member contributions	---	458,330	3,633,294	4,091,624
Penalties and interest	---	193,129	---	193,129
	---	23,808,271	7,287,166	31,095,437
Allowance for doubtful accounts	---	(509,816)	---	(509,816)
Total contributions	---	23,298,455	7,287,166	30,585,621
Investment income:				
Net change in the fair value of investment	---	17,048,142	4,053,395	21,101,537
Interest and dividends	---	3,659,173	575,880	4,235,053
Total investment income	---	20,707,315	4,629,275	25,336,590
Less investment expense	---	355,905	213,031	568,936
Net investment income	---	20,351,410	4,416,244	24,767,654
Other	---	594,947	3,323,195	3,918,142
Total additions	---	44,244,812	15,026,605	59,271,417
Deductions:				
Benefits	---	33,339,049	10,681,257	44,020,306
General and administrative	---	1,729,677	343,321	2,072,998
Total deductions	---	35,068,726	11,024,578	46,093,304
Change in net position held in trust for:				
Social security benefits	---	9,176,086	---	9,176,086
Pension benefits	---	---	4,002,027	4,002,027
	---	9,176,086	4,002,027	13,178,113
Transfer from primary government	---	3,908,950	---	3,908,950
Change in fiduciary net position	---	13,085,036	4,002,027	17,087,063
Net position at beginning of year	---	130,187,944	31,666,644	161,854,588
Net position at end of year	\$ ---	\$ 143,272,980	\$ 35,668,671	\$ 178,941,651

See accompanying notes.

Republic of Palau
Combining Statement of Net Position
Component Units
September 30, 2021

	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
<u>Assets</u>										
Current assets:										
Cash and cash equivalents	\$ 8,362,906	\$ 222,302	\$ 345,678	\$ 382,784	\$ 609,076	\$ 9,972,068	\$ 3,261,866	\$ 1,234,208	\$ 5,293,830	\$ 29,684,718
Investments	---	---	---	1,298,376	---	---	3,282,377	1,859,160	---	6,439,913
Receivables, net	3,881,641	1,835,137	1,718,117	1,030,571	124,481	2,511,133	511,679	---	930,400	12,543,159
Inventories	26,323	330,583	626,488	13,449	---	10,930,358	---	---	---	11,927,201
Prepaid expenses and other	59,414	---	248,174	8,355	35,496	988,611	---	44,857	88,929	1,473,836
Total current assets	<u>12,330,284</u>	<u>2,388,022</u>	<u>2,938,457</u>	<u>2,733,535</u>	<u>769,053</u>	<u>24,402,170</u>	<u>7,055,922</u>	<u>3,138,225</u>	<u>6,313,159</u>	<u>62,068,827</u>
Noncurrent assets:										
Investments	---	---	2,353,857	---	---	---	---	---	---	2,353,857
Receivables	27,208,357	---	---	---	---	269,785	5,298,453	---	---	32,776,595
Capital assets:										
Nondepreciable capital assets	---	---	1,137,949	29,262	---	24,574,390	---	---	1,478,878	27,220,479
Capital assets, net of accumulated depreciation	630,094	2,403,277	18,406,370	1,425,454	86,081	45,540,730	496,587	6,268	11,435,693	80,430,554
Indefeasible right of use	---	---	---	---	---	---	---	---	5,622,110	5,622,110
Foreclosed real estate	347,188	---	---	---	---	---	---	---	---	347,188
Restricted assets:										
Cash and cash equivalents	2,188,991	2,095,711	250,171	---	---	---	---	---	---	4,534,873
Investments	---	7,557,306	---	---	---	---	---	---	---	7,557,306
Total noncurrent assets	<u>30,374,630</u>	<u>12,056,294</u>	<u>22,148,347</u>	<u>1,454,716</u>	<u>86,081</u>	<u>70,384,905</u>	<u>5,795,040</u>	<u>6,268</u>	<u>18,536,681</u>	<u>160,842,962</u>
Total assets	<u>42,704,914</u>	<u>14,444,316</u>	<u>25,086,804</u>	<u>4,188,251</u>	<u>855,134</u>	<u>94,787,075</u>	<u>12,850,962</u>	<u>3,144,493</u>	<u>24,849,840</u>	<u>222,911,789</u>
<u>Deferred Outflows of Resources</u>										
Deferred outflows from pensions	791,354	3,358,134	4,686,869	1,283,403	542,080	9,610,741	174,083	---	---	20,446,664
	<u>\$ 43,496,268</u>	<u>\$ 17,802,450</u>	<u>\$ 29,773,673</u>	<u>\$ 5,471,654</u>	<u>\$ 1,397,214</u>	<u>\$ 104,397,816</u>	<u>\$ 13,025,045</u>	<u>\$ 3,144,493</u>	<u>\$ 24,849,840</u>	<u>\$ 243,358,453</u>
<u>Liabilities</u>										
Current liabilities:										
Current portion of long-term debt	\$ 285,716	\$ ---	\$ 1,422,815	\$ ---	\$ ---	\$ 400,000	\$ ---	\$ ---	\$ ---	\$ 2,108,531
Accounts payable	202,705	30,096	613,530	48,441	29,190	5,742,415	12,374	48,706	---	6,727,457
Due to primary government	387,092	---	---	---	---	1,111,379	285,714	---	1,177,196	2,961,381
Due to fiduciary funds	353,352	---	---	---	---	---	---	---	---	353,352
Accrued payroll and others	49,259	519,240	281,525	1,225	---	1,096,976	---	8,519	174,217	2,130,961
Unearned revenues	41,031	639,494	1,347,717	103,196	---	421,760	---	20,208	1,646,290	4,219,696
Other liabilities	162,447	---	485,171	---	44,032	2,082,152	---	26,205	3,752	2,803,759
Total current liabilities	<u>1,481,602</u>	<u>1,188,830</u>	<u>4,150,758</u>	<u>152,862</u>	<u>73,222</u>	<u>10,854,682</u>	<u>298,088</u>	<u>103,638</u>	<u>3,001,455</u>	<u>21,305,137</u>
Noncurrent liabilities:										
Long-term debt, net of current portion	571,402	---	15,148,043	---	---	1,800,000	---	---	---	17,519,445
Net pension liability	2,594,001	12,858,175	13,660,411	3,269,246	1,382,775	27,696,488	513,615	---	---	61,974,711
Due to primary government	6,857,143	---	---	---	---	26,389,790	4,000,001	---	19,643,623	56,890,557
Due to fiduciary funds	1,377,607	---	---	---	---	---	---	---	---	1,377,607
Total noncurrent liabilities	<u>11,400,153</u>	<u>12,858,175</u>	<u>28,808,454</u>	<u>3,269,246</u>	<u>1,382,775</u>	<u>55,886,278</u>	<u>4,513,616</u>	<u>---</u>	<u>19,643,623</u>	<u>137,762,320</u>
Total liabilities	<u>12,881,755</u>	<u>14,047,005</u>	<u>32,959,212</u>	<u>3,422,108</u>	<u>1,455,997</u>	<u>66,740,960</u>	<u>4,811,704</u>	<u>103,638</u>	<u>22,645,078</u>	<u>159,067,457</u>
<u>Deferred Inflows of Resources</u>										
Deferred inflows from pensions	355,191	3,038,649	1,331,405	424,661	251,368	2,862,284	76,067	---	---	8,339,625
<u>Net Position</u>										
Net position:										
Net investment in capital assets	630,094	2,403,277	2,973,461	1,454,716	86,081	45,241,362	496,587	6,268	(2,287,890)	51,003,956
Restricted:										
Endowment	---	7,605,126	---	---	---	---	---	---	---	7,605,126
Debt service	---	---	250,171	---	---	---	---	---	---	250,171
Other purposes	---	2,251,318	---	150,568	---	---	5,657,680	3,034,587	---	11,094,153
Unrestricted	29,629,228	(11,542,925)	(7,740,576)	19,601	(396,232)	(10,446,790)	1,983,007	---	4,492,652	5,997,965
Total net position	<u>30,259,322</u>	<u>716,796</u>	<u>(4,516,944)</u>	<u>1,624,885</u>	<u>(310,151)</u>	<u>34,794,572</u>	<u>8,137,274</u>	<u>3,040,855</u>	<u>2,204,762</u>	<u>75,951,371</u>
	<u>\$ 43,496,268</u>	<u>\$ 17,802,450</u>	<u>\$ 29,773,673</u>	<u>\$ 5,471,654</u>	<u>\$ 1,397,214</u>	<u>\$ 104,397,816</u>	<u>\$ 13,025,045</u>	<u>\$ 3,144,493</u>	<u>\$ 24,849,840</u>	<u>\$ 243,358,453</u>

See accompanying notes.

Republic of Palau
Combining Statement of Revenues, Expenses, and Changes in Net Position
Component Units

Year ended September 30, 2021

	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
Expenses	\$ 1,919,126	\$ 7,134,587	\$ 15,261,122	\$ 1,872,093	\$ 1,425,691	\$ 29,114,382	\$ 395,428	\$ 1,250,747	\$ 2,666,822	\$ 61,039,998
Program revenues:										
Charges for services	2,635,127	1,152,304	11,646,577	416,168	161,782	18,583,232	---	---	3,086,840	37,682,030
Operating grants and contributions	500,000	5,086,005	427,283	564,644	1,426,000	233,825	---	510,741	---	8,748,498
Capital grants and contributions	3,255,342	---	---	---	---	---	2,130,373	---	---	5,385,715
Total program revenues	6,390,469	6,238,309	12,073,860	980,812	1,587,782	18,817,057	2,130,373	510,741	3,086,840	51,816,243
Net program revenues (expenses)	4,471,343	(896,278)	(3,187,262)	(891,281)	162,091	(10,297,325)	1,734,945	(740,006)	420,018	(9,223,755)
General revenues:										
Contributions from primary government	---	2,546,000	---	400,000	---	20,802	150,000	450,142	---	3,566,944
Investment earnings	3,381	1,463,225	339,143	110,948	---	815	576,917	245,943	78	2,740,450
Other	2,400	225	---	500	---	---	294,009	---	---	297,134
Total general revenues	5,781	4,009,450	339,143	511,448	---	21,617	1,020,926	696,085	78	6,604,528
Change in net position	4,477,124	3,113,172	(2,848,119)	(379,833)	162,091	(10,275,708)	2,755,871	(43,921)	420,096	(2,619,227)
Net position at beginning 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
Net position at end of year	\$ 30,259,322	\$ 716,796	\$ (4,516,944)	\$ 1,624,885	\$ (310,151)	\$ 34,794,572	\$ 8,137,274	\$ 3,040,855	\$ 2,204,762	\$ 75,951,371

See accompanying notes.

Republic of Palau
Notes to Financial Statements
Year ended September 30, 2021

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.

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 could 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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

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 can impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on the Republic.

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 26 PNCA 1. 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 Administration, 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 can impose its will on NDBP.
- Palau Community College (PCC): PCC is a non-profit corporation established by 22 PNCA 3 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 22 PNCA 3, 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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

- Palau National Communications Corporation (PNCC): PNCC was created on August 23, 1982, under the provisions of 15 PNCA 3. 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 can impose its will on PNCC.
- Palau International Coral Reef Center (PICRC): PICRC was created on November 20, 1998 by 24 PNCA 33. 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 28 PNCA 5 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 37 PNCA 4 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 No. 8-31 merged the Palau Water and 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 can 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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

- Protected Areas Network Fund (PAN Fund): PAN Fund was formed on May 2, 2008, under the provisions of 24 PNCA 34 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. 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.
- Belau Submarine Cable Corporation (BSCC): BSCC was created on September 15, 2015, under the provisions of RPPL No. 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 can 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 Administration (ROPSSA), a Fiduciary Fund Type - Private Purpose Trust Fund, was created under 41 PNCA 7. ROPSSA is administered under the authority of five trustees appointed by the President with the advice and consent of the Senate of the OEK. ROPSSA provides retirement, disability, and death benefits to qualified individuals and their survivors. Further, ROPSSA was appointed responsibility under Section 723 of 41 PNC 7, for the administration and operation of the Medical Savings Fund and the Palau Healthcare Fund Program.
- The Republic of Palau Civil Service Pension Plan (ROPCSPP), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, was created under 33 PNCA 20. ROPCSPP 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

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Government-Wide Financial Statements

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

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations like 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 \$345,911,868 of restricted net position, of which \$18,883,865 is restricted by enabling legislation.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Government-Wide Financial Statements, continued

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.

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.

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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Measurement Focus and Basis of Accounting, continued

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 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 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.

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

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Measurement Focus and Basis of Accounting, continued

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.

In addition, the Republic reports the following fiduciary funds:

- Custodial Fund - this fund is used to report resources held by the primary government in a purely custodial capacity relating to deposits made by defendants for court cases and unclaimed property.
- Private Purpose Trust Fund - this fund accounts for resources held in trust by the Republic of Palau Social Security Administration 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 Plan for members and beneficiaries of the Republic's pension plan.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents and Time Certificates of Deposit

The Republic pools cash resources of its various funds 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.

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.

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.

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.

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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

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.

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.

Interfund Receivables and Payables

During 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.

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.

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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Capital Assets, continued

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 after 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 as of September 30, 2021.

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

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.

Interfund/Intrafund Transactions

Generally, 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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

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.

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, because 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.

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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

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.

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.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor 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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

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 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 because of these policies in any of the past three fiscal years.

Recently Adopted Accounting Pronouncements

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 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, Republic management has elected to postpone implementation of these statements.

During the year ended September 30, 2021, the Republic implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statement No. 's 14 and 61*, which improves 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.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending September 30, 2022.

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

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

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 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. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. 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. 89 will be effective for fiscal year ending September 30, 2022.

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.

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. The requirements related

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. 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. 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.

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 Statement No. 's 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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Encumbrances

The Republic utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. As of September 30, 2021, the Republic has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants</u>	<u>Other Governmental</u>	<u>Total</u>
<u>\$446,008</u>	<u>\$4,260,593</u>	<u>\$487,929</u>	<u>\$5,194,530</u>

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.

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 more than immediate needs shall always 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 more than appropriations.

The Board of Trustees charged with the prudent administration and management of the Compact Section 211(f) Fund was reestablished by 40 PNCA Section 407. The provisions of 40 PNCA Section 407 and the Bylaws of the Board of Trustees (Bylaws) subsequently adopted by the Board, shall govern the administration of the Board.

The following investment policy adopted by the Board governs investments of the Compact Section 211(f) Fund (the Fund):

Time Horizon: Investment guidelines are based upon an investment horizon of greater than 20 years, so that interim fluctuations should be viewed with appropriate perspective. Strategic asset allocation is based on this long-term perspective.

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

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 increase in returns.
- 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.
- During market cycles the risk measures, as indicated herein, will be reviewed periodically by the Fund's Management Committee (Committee).

Performance Expectations: The investment objective is a long-term nominal rate of return on assets that is at least equal to 6%. This target rate of return for the Fund was derived from earnings assumptions employed in the renewed terms of the Compact of Free Association 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).

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:

<u>Asset class</u>	<u>Lower limit</u>	<u>Strategic Allocation</u>	<u>Upper limit</u>
U.S. Equities	28%	38%	48%
Non-U.S. Equities	15%	25%	35%
Fixed Income	9%	19%	29%
Alternatives	8%	<u>18%</u>	28%
		<u>100%</u>	

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.

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

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.

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, 2021, the carrying amount of the primary government's total cash and cash equivalents was \$48,350,818 and the corresponding bank balances were \$50,521,218. Of the bank balances, \$50,519,127 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021, bank deposits in the amount of \$750,000 were FDIC insured. The remaining bank deposits of \$2,091 are maintained in financial institutions not subject to depository insurance. The Republic does not require collateralization of its cash deposits; therefore, deposit levels more than FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2021, the carrying amount of the fiduciary fund's total cash and cash equivalents was \$6,686,365 and the corresponding bank balances were \$6,682,372, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2021, bank deposits in the amount of \$1,563,014 were FDIC insured. The Republic does not require collateralization of its cash deposits; therefore, deposit levels more than FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2021, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents was \$34,219,591 and the corresponding bank balances were \$32,886,251. Of the bank balances, \$32,860,765 is 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, 2021, bank deposits in the amount of \$4,512,522 were FDIC or SIPC insured. The remaining bank deposits of \$25,486 are maintained in financial institutions not subject to depository insurance. The component units do not require collateralization of their cash deposits; therefore, deposit levels more than FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments

Primary Government

As of September 30, 2021, investments of the primary government are as follows:

General Fund:	
Fixed income	\$ 2,966,840
Equities	6,891,450
Mutual funds	1,100,046
Real estate and tangibles	131,483
Money market funds	<u>348,365</u>
	<u>11,438,184</u>
Permanent Fund:	
Fixed income	61,363,631
Equities	214,301,931
Real estate and tangibles	15,680,856
Alternatives	21,006,495
Money market funds	<u>11,032,565</u>
	<u>323,385,478</u>
Other Governmental Funds:	
Equities	3,087,317
Money market funds	<u>10,724</u>
	<u>3,098,041</u>
	<u>\$337,921,703</u>

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 these investments were held in the Republic's name by the Republic's custodial financial institutions as of September 30, 2021.

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

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Primary Government, continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The 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, 2021, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2021, investments in fixed income debt securities of the primary government were as follows:

General Fund

	<u>Investment Maturities (In Years)</u>				<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	
U.S. Treasury notes	\$139,995	\$ 797,761	\$ 610,822	\$100,592	\$1,649,170
U.S. Municipal obligations	---	---	---	591,458	591,458
Corporate notes and bonds	---	<u>210,556</u>	<u>486,453</u>	<u>29,203</u>	<u>726,212</u>
	<u>\$139,995</u>	<u>\$1,008,317</u>	<u>\$1,097,275</u>	<u>\$721,253</u>	<u>\$2,966,840</u>

Permanent Fund

	<u>Investment Maturities (In Years)</u>				<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	
U.S. Treasury notes	\$ 665,181	\$ 6,200,055	\$ 3,832,940	\$ 1,333,779	\$12,031,955
U.S. Municipal obligations	55,591	385,149	520,074	651,543	1,612,357
Other U.S. government obligations	232,644	1,863,855	840,785	6,540,290	9,477,574
Preferred securities	460,977	1,594,410	---	---	2,055,387
Corporate notes and bonds	<u>1,897,261</u>	<u>20,642,007</u>	<u>11,264,064</u>	<u>2,383,026</u>	<u>36,186,358</u>
	<u>\$3,311,654</u>	<u>\$30,685,476</u>	<u>\$16,457,863</u>	<u>\$10,908,638</u>	<u>\$61,363,631</u>

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Primary Government, continued

As of September 30, 2021, credit quality distribution for debt securities of the primary government as of September 30, 2021, were as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>General Fund</u>	<u>Permanent Fund</u>
U.S. Treasury notes	Aaa/Aa/A	\$1,509,175	\$11,491,972
U.S. Treasury notes	Not Rated	139,995	539,983
U.S. Municipal obligations	Aaa/Aa/A	---	860,507
U.S. Municipal obligations	Not Rated	591,458	751,850
Other U.S. government obligations	Aaa/Aa/A	---	3,767,064
Other U.S. government obligations	Not Rated	---	5,710,510
Preferred securities	Baa/Ba/B	---	389,934
Preferred securities	Not Rated	---	1,665,453
Corporate notes and bonds	Aaa/Aa/A	261,385	7,701,476
Corporate notes and bonds	Baa/Ba/B	464,827	15,316,865
Corporate notes and bonds	Caa/Ca/C	---	389,683
Corporate notes and bonds	Not Rated	---	<u>12,778,334</u>
		<u>\$2,966,840</u>	<u>\$61,363,631</u>

Investments of the primary government have the following recurring fair value measurements as of September 30, 2021:

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:				
Debt securities:				
U.S. Treasury notes	\$ 1,649,170	\$1,649,170	\$ ---	\$ ---
U.S. Municipal obligations	591,458	---	591,458	---
Corporate notes and bonds	<u>726,212</u>	---	<u>726,212</u>	---
	<u>2,966,840</u>	<u>1,649,170</u>	<u>1,317,670</u>	---
Equity securities:				
U.S. equities	5,658,035	5,658,035	---	---
Non-U.S. equities	1,233,415	1,233,415	---	---
Real estate and tangibles	<u>131,483</u>	---	---	<u>131,483</u>
	<u>7,022,933</u>	<u>6,891,450</u>	---	<u>131,483</u>
Total investments by fair value level	9,989,773	<u>\$8,540,620</u>	<u>\$1,317,670</u>	<u>\$ 131,483</u>
Investments measured at NAV:				
Mutual funds	1,100,046			
Investments measured at amortized cost:				
Money market funds	<u>348,365</u>			
	<u>\$11,438,184</u>			

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Primary Government, continued

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:				
Debt securities:				
U.S. Treasury notes	\$ 12,031,955	\$ 12,031,955	\$ ---	\$ ---
U.S. Municipal obligations	1,612,357	---	1,612,357	---
Other U.S. Government obligations	9,477,574	---	9,477,574	---
Preferred securities	2,055,387	---	2,055,387	---
Corporate notes and bonds	<u>36,186,358</u>	---	<u>36,186,358</u>	---
	<u>61,363,631</u>	<u>12,031,955</u>	<u>49,331,676</u>	---
Equity securities:				
U.S. equities	128,959,258	128,959,258	---	---
Non-U.S. equities	85,342,673	85,342,673	---	---
Real estate and tangibles	<u>15,680,856</u>	---	---	<u>15,680,856</u>
	<u>229,982,787</u>	<u>214,301,931</u>	---	<u>15,680,856</u>
Total investments by fair value level	291,346,418	<u>\$226,333,886</u>	<u>\$49,331,676</u>	<u>\$15,680,856</u>
Investments measured at NAV:				
Alternatives	21,006,495			
Investments measured at amortized cost:				
Money market funds	<u>11,032,565</u>			
	<u>\$323,385,478</u>			

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	\$2,266,609	\$2,266,609	\$ ---	\$ ---
Non-U.S. equities	<u>820,708</u>	<u>820,708</u>	---	---
Total investments by fair value level	3,087,317	<u>\$3,087,317</u>	<u>\$ ---</u>	<u>\$ ---</u>
Investments measured at amortized cost:				
Money market funds	<u>10,724</u>			
	<u>\$3,098,041</u>			

Fiduciary Funds

Republic of Palau Social Security Administration (ROPSSA)

As of September 30, 2021, investments of ROPSSA are as follows:

Fixed income	\$ 29,850,235
Mutual funds	108,694,096
Money market funds	<u>281,607</u>
	<u>\$138,825,938</u>

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds, continued

Republic of Palau Social Security Administration (ROPSSA), continued

The deposit and investment policies of ROPSSA 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.
- e. The exposure of the portfolio to any one company, other than securities of the U.S. government, shall not exceed 5% of the market value of the portfolio under management by the investment manager.

(3) U.S. Equities

- a. Common stock and convertible securities of U.S. listed Corporations provided they are listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), or National Association of Securities Dealers Automated Quotation (NASDAQ).
- b. American Depositary 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.
- d. An investment manager’s firm aggregate equity position should not exceed 5% of the corporation’s total market capitalization.

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds, continued

Republic of Palau Social Security Administration (ROPSSA), continued

(4) International Equities

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

As of September 30, 2021, ROPSSA's investments in fixed income debt securities were as follows:

	<u>Investment Maturities (In Years)</u>				<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	
U.S. Treasury notes	\$ 175,278	\$ 2,572,924	\$1,143,096	\$1,451,884	\$ 5,343,182
U.S. Municipal obligations	---	921,402	1,364,337	1,600,956	3,886,695
Other U.S. Government obligations	35,052	1,825,371	1,261,457	2,370,713	5,492,593
Corporate notes and bonds	<u>965,691</u>	<u>7,174,648</u>	<u>3,570,587</u>	<u>3,416,839</u>	<u>15,127,765</u>
	<u>\$1,176,021</u>	<u>\$12,494,345</u>	<u>\$7,339,477</u>	<u>\$8,840,392</u>	<u>\$29,850,235</u>

ROPSSA's credit quality distribution for debt securities as of September 30, 2021, is as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Amount</u>
U.S. Treasury notes	Aaa	\$ 5,343,182
Other U.S. Government obligations	Aaa	5,492,593
U.S. Municipal obligations	Aaa/Aa/A	2,597,094
U.S. Municipal obligations	Not Rated	1,289,601
Corporate notes and bonds	Aaa/Aa/A	11,699,855
Corporate notes and bonds	Baa/Ba/B	3,128,991
Corporate notes and bonds	Not Rated	<u>298,919</u>
		<u>\$29,850,235</u>

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds, continued

Republic of Palau Social Security Administration (ROPSSA), continued

ROPSSA has the following recurring fair value measurements as of September 30, 2021:

	Total	Fair Value Measurements Using		
		(Level 1)	(Level 2)	(Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	\$ 5,343,182	\$5,343,182	\$ ---	\$ ---
U.S. Municipal obligations	3,886,695	---	3,886,695	---
Other U.S. Government obligations	5,492,593	---	5,492,593	---
Corporate notes and bonds	<u>15,127,765</u>	---	<u>15,127,765</u>	---
Total investments by fair value level	29,850,235	<u>\$5,343,182</u>	<u>\$24,507,053</u>	<u>\$ ---</u>
Investments measured at NAV:				
Mutual funds	108,694,096			
Investments measured at amortized cost:				
Money market funds	<u>281,607</u>			
	<u>\$138,825,938</u>			

Republic of Palau Civil Service Pension Plan (ROPCSPP)

As of September 30, 2021, investments of ROPCSPP are as follows:

Equities	\$18,994,689
Fixed income	<u>12,430,881</u>
	<u>\$31,425,570</u>

The deposit and investment policies of ROPCSPP are as follows:

- 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.
- 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.
- No individual security or any issuer, other than that of the United States Government, and alternative investments, shall constitute more than 10% of any investment manager's portfolio.
- Holdings of an 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 the prior approval of the Board of Trustees.
- 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.
- 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.

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds, continued

Republic of Palau Civil Service Pension Plan (ROPCSPP), continued

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

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds, continued

Republic of Palau Civil Service Pension Plan (ROPCSPP), continued

Equities:

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

Cash/Cash Equivalents:

- (A) Cash equivalent reserves shall consist of cash instruments having a credit quality rating of Standard & Poor's A-1, Moody's P-1, or their equivalent. U.S. Treasury and Agency securities, Banker Acceptances, Certificate of Deposit, and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.
- (B) In the case of Certificates of Deposit, except as discussed under Fixed Income with respect to the Local CDs, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10 million in assets may not be made more than \$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.

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds, continued

Republic of Palau Civil Service Pension Plan (ROPCSP), continued

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) Investment 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.
- (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, 2021, ROPCSP's investments in fixed income debt securities were as follows:

	<u>Investment Maturities (In Years)</u>			<u>Greater Than 10</u>	<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>		
U.S. Treasury notes	\$354,989	\$1,491,823	\$2,088,240	\$ 512,796	\$ 4,447,848
U.S. Municipal obligations	---	---	---	3,102,892	3,102,892
Preferred securities	103,316	269,017	---	---	372,333
Corporate notes and bonds	---	<u>2,018,332</u>	<u>2,478,920</u>	<u>10,556</u>	<u>4,507,808</u>
	<u>\$458,305</u>	<u>\$3,779,172</u>	<u>\$4,567,160</u>	<u>\$3,626,244</u>	<u>\$12,430,881</u>

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds, continued

Republic of Palau Civil Service Pension Plan (ROPCSPP), continued

ROPCSPP's credit quality distribution for debt securities as of September 30, 2021, is as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Amount</u>
U.S. Treasury notes	Aaa	\$ 4,092,859
U.S. Treasury notes	Not Rated	354,989
U.S. Municipal obligations	Not Rated	3,102,892
Preferred securities	Baa/Ba/B	82,034
Preferred securities	Not Rated	290,299
Corporate notes and bonds	Aaa/Aa/A	2,259,782
Corporate notes and bonds	Baa/Ba/B	319,206
Corporate notes and bonds	Not Rated	<u>1,928,820</u>
		<u>\$12,430,881</u>

ROPCSPP has the following recurring fair value measurements as of September 30, 2021:

	<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:				
Debt securities:				
U.S. Treasury notes	\$ 4,447,848	\$ 4,447,848	\$ ---	\$ ---
U.S. Municipal obligations	3,102,892	---	3,102,892	---
Preferred securities	372,333	---	372,333	---
Corporate notes and bonds	<u>4,507,808</u>	---	<u>4,507,808</u>	---
	<u>12,430,881</u>	<u>4,447,848</u>	<u>7,983,033</u>	---
Equity securities:				
Real Estate Investment Trusts	2,058,187	2,058,187	---	---
U.S. equities	9,280,673	9,280,673	---	---
Non-U.S. equities	<u>7,655,829</u>	<u>7,655,829</u>	---	---
	<u>18,994,689</u>	<u>18,994,689</u>	---	---
Total investments by fair value level	<u>\$31,425,570</u>	<u>\$23,442,537</u>	<u>\$7,983,033</u>	<u>\$ ---</u>

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Discretely Presented Component Units

Palau Community College (PCC)

Fixed income	\$1,730,151
Domestic equities	3,079,582
Non-U.S. equities	2,112,032
Real estate and tangibles	385,195
Money market funds	<u>250,346</u>
	<u>\$7,557,306</u>

As of September 30, 2021, maturities of investments in fixed income securities for PCC are as follows:

	<u>Investment Maturities (In Years)</u>				<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	
U.S. Treasury notes	\$ ---	\$339,452	\$353,666	\$138,924	\$ 832,042
Corporate notes and bonds	<u>---</u>	<u>107,378</u>	<u>526,714</u>	<u>264,017</u>	<u>898,109</u>
	<u>\$ ---</u>	<u>\$446,830</u>	<u>\$880,380</u>	<u>\$402,941</u>	<u>\$1,730,151</u>

PCC's credit quality distribution for debt securities as of September 30, 2021, is as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Amount</u>
U.S. Treasury notes	Aaa	\$ 832,042
Corporate notes and bonds	Aaa/Aa/A	426,393
Corporate notes and bonds	Baa/Ba/B	<u>471,716</u>
		<u>\$1,730,151</u>

PCC has the following fair value measurements as of September 30, 2021:

	<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:				
Debt securities:				
U.S. Treasury notes	\$ 832,042	\$ 832,042	\$ ---	\$ ---
Corporate notes and bonds	<u>898,109</u>	<u>---</u>	<u>898,109</u>	<u>---</u>
	1,730,151	832,042	898,109	---
Equity securities:				
U.S. equities	<u>5,576,809</u>	<u>5,576,809</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	7,306,960	<u>\$6,408,851</u>	<u>\$898,109</u>	<u>\$ ---</u>
Investments measured at amortized cost:				
Money market funds	<u>250,346</u>			
	<u>\$7,557,306</u>			

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Discretely Presented Component Units, continued

Palau National Communications Corporation (PNCC)

Fixed income	\$ 815,076
Domestic equities	1,232,809
International equities	207,105
Exchange-traded funds	55,433
Money market funds	<u>43,434</u>
	<u>\$2,353,857</u>

As of September 30, 2021, maturities of investments in fixed income securities for PNCC are as follows:

	<u>Investment Maturities (In Years)</u>				<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	
U.S. Treasury notes	\$ ---	\$149,178	\$165,125	\$ 76,154	\$390,457
Corporate notes and bonds	---	<u>48,452</u>	<u>274,796</u>	<u>101,371</u>	<u>424,619</u>
	<u>\$---</u>	<u>\$197,630</u>	<u>\$439,921</u>	<u>\$177,525</u>	<u>\$815,076</u>

PNCC's credit quality distribution for debt securities as of September 30, 2021, is as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Amount</u>
U.S. Treasury notes	Aaa	\$390,457
Corporate notes and bonds	Aaa/Aa/A	175,964
Corporate notes and bonds	Baa/Ba/B	<u>248,655</u>
		<u>\$815,076</u>

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Discretely Presented Component Units, continued

Palau National Communications Corporation (PNCC), continued

PNCC has the following fair value measurements as of September 30, 2021:

	<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:				
Debt securities:				
U.S. Treasury notes	\$ 390,457	\$ 390,457	\$ ---	\$ ---
Corporate notes and bonds	<u>424,619</u>	<u>---</u>	<u>424,619</u>	<u>---</u>
	<u>815,076</u>	<u>390,457</u>	<u>424,619</u>	<u>---</u>
Equity securities:				
U.S. equities	1,232,809	1,232,809	---	---
Non-U.S. equities	<u>207,105</u>	<u>207,105</u>	<u>---</u>	<u>---</u>
	<u>1,439,914</u>	<u>1,439,914</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	2,254,990	<u>\$1,830,371</u>	<u>\$424,619</u>	<u>\$---</u>
Investments measured at net asset value:				
Exchange-traded funds	55,433			
Investments measured at amortized cost:				
Money market funds	<u>43,434</u>			
	<u>\$2,353,857</u>			

Palau International Coral Reef Center (PICRC)

Exchange-traded and closed-end funds	\$1,250,915
Money market funds	<u>47,461</u>
	<u>\$1,298,376</u>

PICRC has the following fair value measurement as of September 30, 2021:

	<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:				
Exchange-traded funds	\$1,250,915	<u>\$1,250,915</u>	<u>\$---</u>	<u>\$---</u>
Investments measured at amortized cost:				
Money market funds	<u>47,461</u>			
	<u>\$1,298,376</u>			

Palau Housing Authority (PHA)

Equities	\$3,270,009
Money market funds	<u>12,368</u>
	<u>\$3,282,377</u>

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Discretely Presented Component Units, continued

Palau Housing Authority (PHA), continued

PHA has the following fair value measurements as of September 30, 2021:

	<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	\$3,270,009	<u>\$3,270,009</u>	\$-----	\$-----
Investments measured at amortized cost:				
Money market funds	<u>12,368</u>			
	<u>\$3,282,377</u>			

Protected Areas Network Fund (PANF)

Fixed income	\$ 491,631
Equities	1,255,154
Money market funds	<u>112,375</u>
	<u>\$1,859,160</u>

As of September 30, 2021, maturities of investments in fixed income securities for PANF are as follows:

	<u>Less Than 1</u>	<u>Investment Maturities (In Years)</u>			<u>Fair Value</u>
		<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	
U.S. Treasury notes	\$ ---	\$ 93,541	\$120,489	\$21,085	\$235,115
Corporate notes and bonds	---	<u>13,726</u>	<u>182,949</u>	<u>59,841</u>	<u>256,516</u>
	<u>\$-----</u>	<u>\$107,267</u>	<u>\$303,438</u>	<u>\$80,926</u>	<u>\$491,631</u>

PANF's credit quality distribution for debt securities as of September 30, 2021, is as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Amount</u>
U.S. Treasury notes	Aaa	\$235,115
Corporate notes and bonds	Aaa/Aa/A	101,860
Corporate notes and bonds	Baa/Ba/B	<u>154,656</u>
		<u>\$491,631</u>

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Discretely Presented Component Units, continued

Protected Areas Network Fund (PANF), continued

PANF has the following fair value measurements as of September 30, 2021:

	<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:				
Debt securities:				
U.S. Treasury notes	\$ 235,115	\$ 235,115	\$ ---	\$ ---
Corporate notes and bonds	<u>256,516</u>	<u>---</u>	<u>256,516</u>	<u>---</u>
	491,631	235,115	256,516	---
Equity securities:				
U.S. equities	<u>1,255,154</u>	<u>1,255,154</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	1,746,785	<u>\$1,490,269</u>	<u>\$256,516</u>	<u>\$ ---</u>
Investments measured at amortized cost:				
Money market funds	<u>112,375</u>			
	<u>\$1,859,160</u>			

3. Receivables

Primary Government

Receivables as of September 30, 2021, for the primary government's individual major funds, and nonmajor governmental funds and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants</u>	<u>Permanent Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Taxes	\$ 4,095,649	\$ ---	\$ ---	\$ ---	\$ ---	\$ 4,095,649
General	3,730,863	7,042,003	---	8,757,375	1,577,290	21,107,531
Federal agencies	---	12,606,586	---	---	---	12,606,586
Contributions	---	---	---	---	5,596,987	5,596,987
Accrued interest	---	---	---	---	186,612	186,612
Other	---	---	---	---	1,904,166	1,904,166
	<u>7,826,512</u>	<u>19,648,589</u>	<u>---</u>	<u>8,757,375</u>	<u>9,265,055</u>	<u>45,497,531</u>
Allowance for uncollectible accounts	<u>(2,930,913)</u>	<u>---</u>	<u>---</u>	<u>(8,698,656)</u>	<u>(2,883,385)</u>	<u>(14,512,954)</u>
	<u>\$ 4,895,599</u>	<u>\$19,648,589</u>	<u>\$ ---</u>	<u>\$ 58,719</u>	<u>\$ 6,381,670</u>	<u>\$ 30,984,577</u>

Republic of Palau

Notes to Financial Statements, continued

3. Receivables, continued

Discretely Presented Component Units

Receivables as of September 30, 2021, for the discretely presented component units', including applicable allowances for uncollectible accounts, are as follows:

	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
General	\$ ---	\$ 3,521,295	\$ 2,577,621	\$ 304,816	\$ ---	\$ 5,081,545	\$ 43,157	\$ ---	\$ 930,400	\$ 12,458,834
Federal agencies	---	860,039	---	---	---	---	---	---	---	860,039
Loans	34,180,732	---	---	---	---	---	5,657,680	---	---	39,838,412
Accrued interest	676,876	---	---	---	---	---	9,589	---	---	686,465
Other	<u>63,728</u>	<u>300,375</u>	<u>503,188</u>	<u>745,786</u>	<u>130,118</u>	<u>30,147</u>	<u>209,461</u>	---	---	<u>1,982,803</u>
	34,921,336	4,681,709	3,080,809	1,050,602	130,118	5,111,692	5,919,887	---	930,400	55,826,553
Allowance for uncollectible accounts	<u>(3,831,338)</u>	<u>(2,846,572)</u>	<u>(1,362,692)</u>	<u>(20,031)</u>	<u>(5,637)</u>	<u>(2,330,774)</u>	<u>(109,755)</u>	---	---	<u>(10,506,799)</u>
	<u>\$31,089,998</u>	<u>\$ 1,835,137</u>	<u>\$ 1,718,117</u>	<u>\$1,030,571</u>	<u>\$124,481</u>	<u>\$ 2,780,918</u>	<u>\$5,810,132</u>	<u>\$ ---</u>	<u>\$ 930,400</u>	<u>\$ 45,319,754</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 Housing Authority (PHA)

PHA's loan portfolio is comprised of loans to qualifying residents, under various housing loan programs, for rehabilitation of existing dwellings or for construction of approved low-cost housing. All loans are at fixed rates with interest rates ranging from 3% to 4.5% per annum with terms from 5 to 30 years. Loans are collateralized by the property being rehabilitated or constructed.

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 as of September 30, 2021, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants	\$13,922,167
General	Nonmajor governmental funds	687
Fiduciary	General	1,577,290
Grants	General	7,084,899
Nonmajor governmental funds	General	<u>11,625,661</u>
		<u>\$34,210,704</u>

Republic of Palau

Notes to Financial Statements, continued

4. Interfund Receivables and Payables, continued

Primary Government, continued

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.

Receivables and payables between funds reflected as due to/from component units as of September 30, 2021, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
National Development Bank of Palau	\$ 7,244,235	\$ ---
Palau Housing Authority	4,285,715	---
Palau Public Utilities Corporation	27,501,169	---
Belau Submarine Cable Corporation	<u>20,820,819</u>	<u>---</u>
	<u>\$59,851,938</u>	<u>\$ ---</u>

National Development Bank of Palau (NDBP)

In 2012, NDBP entered into a \$4,000,000 loan agreement 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. The outstanding balance of the loan receivable was \$101,377 as of September 30, 2021.

In 2016, NDBP entered into a \$5,000,000 loan agreement 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. The outstanding balance of the loan receivable was \$4,142,858 as of September 30, 2021.

Republic of Palau

Notes to Financial Statements, continued

4. Interfund Receivables and Payables, continued

Primary Government, continued

National Development Bank of Palau (NDBP), continued

In 2020, the Republic entered into a \$5,000,000 loan agreement with the International Cooperation and Development Fund (ICDF) for the purpose of financing the Women and Youth Entrepreneurs and Micro and Small and Medium Enterprises Re-lending Project. The loan proceeds were on-lent to NDBP for project implementation. The loan is uncollateralized and is due on March 30, 2040, with interest based on LIBOR plus 1% capped at 4% per annum, payable in semi-annual installments as advised by ICDF. Principal payments commence thirty-six months after the advance of proceeds over the remaining period of the loan term. The outstanding balance of the loan receivable was \$3,000,000 as of September 30, 2021.

Palau Housing Authority (PHA)

In 2016, the Republic entered into a \$5,000,000 loan agreement with Mega International Commercial Bank Co., Ltd (MICB) for the purpose of financing housing development in the Republic. The loan proceeds were on-lent to PDHA for project implementation. 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. The outstanding balance of the loan receivable was \$4,285,715 as of September 30, 2021.

Palau Public Utility Corporation (PPUC)

In 2014, PPUC entered into a project agreement for the Koror-Airai Sanitation Project, which provides for high priority sanitation infrastructure identified in the Koror-Airai Sanitation Master Plan. Under the project agreement, the Asian Development Bank (ADB) agreed to make available two loans on the condition that the proceeds be on-lent to PPUC for project implementation. The two loans comprise of a \$26,900,000 Ordinary Operations loan agreement (Loan Number 3060) and a Special Drawing Rights (SDR) 1,258,000 Special Operations loan agreement (Loan Number 3061). Both loans are uncollateralized and are due and payable on October 1, 2037. Interest payable on Loan Number 3060 is at LIBOR plus 0.6% per annum payable semi-annually every April 1 and October 1 with principal payable at 2.5% of the total principal amount outstanding on each payment date. Interest payable on Loan Number 3061 is at 1.5% per annum payable semi-annually every April 1 and October 1 with principal payable semi-annually of SDR 26,208 through October 1, 2041. The outstanding balance of the loan receivables (associated with Loan Number 3060 and Loan Number 3061) was \$20,859,790 and \$1,641,379, respectively, as of September 30, 2021.

Republic of Palau

Notes to Financial Statements, continued

4. Interfund Receivables and Payables, continued

Primary Government, continued

Palau Public Utility Corporation (PPUC), continued

On December 10, 2020, the Republic entered into a \$5,000,000 loan agreement with ADB for the purpose of improving the financial sustainability of PPUC. The loan proceeds were on-lent to PPUC for the purpose of: (i) managing tariff reforms, (ii) enhancing the financial management of PPUC, (iii) strengthening the corporate governance and transparency of PPUC, and (iv) improving market access for energy sector participation by the private sector. The loan is uncollateralized, interest free, and is due and payable in full on July 31, 2041. The outstanding balance of the loan receivable was \$5,000,000 as of September 30, 2021.

Belau Submarine Cable Corporation (BSCC)

In 2016, BSCC entered into a project agreement for the North Pacific Regional Connectivity Investment Project, which provides for the establishment of a submarine cable connection from Palau to the submarine cable system owned by the SEA-US Consortium that connects to the international cable hub in Guam. Under the project agreement, the ADB agreed to make available two loans on the condition that the proceeds be on-lent to BSCC for project implementation. The two loans comprise of a \$16,470,000 Ordinary Operations loan agreement (Loan Number 3346) and a SDR 6,032,000 Special Operations loan agreement (Loan Number 3347). Both loans are uncollateralized and are due and payable on June 1, 2041. Interest payable on Loan Number 3346 is at LIBOR plus 0.5% per annum payable semi-annually every June 1 and December 1 with principal payable at 2.5% of the total principal amount outstanding on each payment date. Interest payable on Loan Number 3347 is at 2% per annum payable semi-annually every June 1 and December 1 with principal payable semi-annually of SDR 150,800 through June 1, 2044. The outstanding balance of the loan receivables (associated with Loan Number 3346 and Loan Number 3347) was \$13,746,895 and \$7,073,924, respectively, as of September 30, 2021.

Republic of Palau

Notes to Financial Statements, continued

4. Interfund Receivables and Payables, continued

Primary Government, continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 2,961,381	\$ 793,043	\$ 3,754,424
2023	2,860,004	753,992	3,613,996
2024	3,296,033	708,618	4,004,651
2025	3,159,185	651,220	3,810,405
2026	3,279,122	627,784	3,906,906
2027 - 2031	17,020,606	2,180,696	19,201,302
2032 - 2036	15,907,255	1,243,787	17,151,042
2037 - 2041	9,969,773	387,519	10,357,292
2042 - 2046	<u>1,398,579</u>	<u>65,227</u>	<u>1,436,806</u>
	<u>\$59,851,938</u>	<u>\$7,411,886</u>	<u>\$67,263,824</u>

Fiduciary Fund

Receivables and payables between funds reflected as due to/from component units at September 30, 2021, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
Republic of Palau Social Security Administration:		
National Development Bank of Palau	\$ <u>1,730,959</u>	\$ <u>---</u>

National Development Bank of Palau (NDBP)

In 2003, NDBP entered into a \$3,000,000 loan agreement with the Republic of Palau Social Security Administration (ROPSSA) 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.

In 2008, NDBP entered into a \$6,000,000 agreement with ROPSSA to restructure the 2003 loan, which was disbursed in increments of \$500,000, bearing interest at a variable annual rate equal to ROPSSA's Fixed Income Fund Return Rate as reported monthly by ROPSSA's investment consultant, plus 0.5%; provided, however the interest rate to be charged and paid by NDBP shall not be less than 4.5% nor more than 7.5% after addition of the 0.5% to the prime rate. Outstanding principal plus all unpaid interest are to be paid semi-annually, on or before June 30 and December 31 of each year, effective June 30, 2011, through December 31, 2025. The outstanding balance of the loan receivable was \$1,730,959 with interest at 4.5% as of September 30, 2021. The loan is collateralized by the full faith and credit of the Republic.

Republic of Palau

Notes to Financial Statements, continued

4. Interfund Receivables and Payables, continued

Fiduciary Fund, continued

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

Year ending September 30,	Principal	Interest	Total
2022	\$ 575,075	\$ 75,018	\$ 650,093
2023	136,039	54,865	190,904
2024	415,374	41,156	456,530
2025	<u>604,471</u>	<u>27,068</u>	<u>631,539</u>
	<u>\$ 1,730,959</u>	<u>\$ 198,107</u>	<u>\$ 1,929,066</u>

5. Capital Assets

Capital asset activities for the year ended September 30, 2021, are as follows:

Primary Government

	Balance at October 1, 2020	Additions	Deletions and Transfers	Balance at September 30, 2021
Depreciable capital assets:				
Building and other improvements	\$ 180,629,304	\$ ---	\$ (1,270,608)	\$ 179,358,696
Machinery and equipment	57,005,025	2,502,028	(384,097)	59,122,956
Vehicles	9,035,479	942,050	(610,109)	9,367,420
Infrastructure	<u>243,932,042</u>	<u>4,829,678</u>	<u>---</u>	<u>248,761,720</u>
Total capital assets being depreciated	<u>490,601,850</u>	<u>8,273,756</u>	<u>(2,264,814)</u>	<u>496,610,792</u>
Accumulated depreciation:				
Building and other improvements	(111,815,268)	(6,204,603)	1,270,608	(116,749,263)
Machinery and equipment	(28,861,750)	(3,573,184)	5,779,521	(26,655,413)
Vehicles	(7,190,151)	(1,257,506)	610,109	(7,837,548)
Infrastructure	<u>(223,774,886)</u>	<u>(5,089,077)</u>	<u>---</u>	<u>(228,863,963)</u>
Total accumulated depreciation	<u>(371,642,055)</u>	<u>(16,124,370)</u>	<u>7,660,238</u>	<u>(380,106,187)</u>
Total depreciable capital assets, net	<u>118,959,795</u>	<u>(7,850,614)</u>	<u>5,395,424</u>	<u>116,504,605</u>
Non-depreciable capital assets:				
Land	3,899,403	---	---	3,899,403
Construction in progress	<u>9,020,895</u>	<u>9,961,950</u>	<u>(6,031,264)</u>	<u>12,951,581</u>
Total non-depreciable capital assets	<u>12,920,298</u>	<u>9,961,950</u>	<u>(6,031,264)</u>	<u>16,850,984</u>
Capital assets, net	<u>\$ 131,880,093</u>	<u>\$ 2,111,336</u>	<u>\$ (635,840)</u>	<u>\$ 133,355,589</u>

Republic of Palau

Notes to Financial Statements, continued

5. Capital Assets, continued

Primary Government, continued

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

General government	\$ 984,155
Education	388,121
Health and welfare	1,391,689
Public safety	1,948,325
Cultural affairs and recreation	234,585
Transportation and commerce	10,228,086
Unallocated	<u>949,409</u>
Total depreciation expense	<u>\$16,124,370</u>

Fiduciary Funds

	Estimated <u>Useful Lives</u>	Balance at October <u>1, 2020</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2021</u>
Depreciable capital assets:					
Office furniture and equipment	4 - 13 years	\$ 1,244,705	\$ 21,330	\$ (5,821)	\$ 1,260,214
Building and improvements	30 years	13,500	475,963	---	489,463
Vehicles	5 years	<u>134,180</u>	---	---	<u>134,180</u>
		1,392,385	497,293	(5,821)	1,883,857
Less accumulated depreciation		<u>(802,210)</u>	<u>(195,119)</u>	<u>66</u>	<u>(997,263)</u>
		<u>\$ 590,175</u>	<u>\$ 302,174</u>	<u>\$ (5,755)</u>	<u>\$ 886,594</u>

Discretely Presented Component Units

	Estimated <u>Useful Lives</u>	Balance at October <u>1, 2020</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2021</u>
Depreciable capital assets:					
Buildings	3 - 30 years	\$ 25,007,498	\$ 456,351	\$ 480,175	\$ 25,944,024
Utility plant	2 - 30 years	204,535,741	2,683,019	(7,608,103)	199,610,657
Machinery and equipment	2 - 20 years	14,757,063	842,517	83,988	15,683,568
Infrastructure	2 - 15 years	<u>3,426,783</u>	<u>36,098</u>	<u>(5,457)</u>	<u>3,457,424</u>
		247,727,085	4,017,985	(7,049,397)	244,695,673
Less accumulated depreciation		<u>(161,617,289)</u>	<u>(9,825,301)</u>	<u>7,177,471</u>	<u>(164,265,119)</u>
		86,109,796	(5,807,316)	128,074	80,430,554
Non-depreciable capital assets:					
Construction in progress		<u>24,351,602</u>	<u>4,946,650</u>	<u>(2,077,773)</u>	<u>27,220,479</u>
		<u>\$ 110,461,398</u>	<u>\$ (860,666)</u>	<u>\$ (1,949,699)</u>	<u>\$ 107,651,033</u>

Republic of Palau

Notes to Financial Statements, continued

6. Indefeasible Right of Use (IRU) Agreement

In 2016, the Belau Submarine Cable Corporation (BSCC) entered into an IRU Capital Lease agreement with a third party for 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. Under the terms of the agreement, BSCC made certain payments of \$6,666,534. The term of the agreement is for a period of 25 years commencing on the date BSCC is initially granted access. BSCC’s policy is to amortize the right of use over the 25-year period. As of September 30, 2021, accumulated amortization expense of \$1,044,424 has been recorded.

7. Long-term Debt

Primary Government

Under 40 PNC Section 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 more than \$35,000,000 must be approved by joint resolution of the same by the Olbiil era Kelulau. As of September 30, 2021, the primary government had the following long-term debt outstanding and payable:

	Dated Date	Interest Rate	Final Maturity	Outstanding Amount
Asian Development Bank (ADB):				
Loan No. 2691 PAL Water Sector Improvement Program	October 6, 2011	1.09%	November 1, 2025	\$ 6,490,389
Loan No. 2692 PAL (SF) Water Sector Improvement Program	October 6, 2011	1.5%	November 1, 2034	2,556,775
Loan No. 3060 PAL Koror-Airai Sanitation Project	March 28, 2014	1.58%	October 1, 2037	20,859,790
Loan No. 3061 PAL (SF) Koror-Airai Sanitation Project	March 28, 2014	1.5%	October 1, 2044	1,641,378
Loan No. 3346 PAL North Pacific Regional Connectivity Investment Project	March 7, 2016	1.11%	December 1, 2040	13,746,895
Loan No. 3347 PAL (SF) North Pacific Regional Connectivity Investment Project	March 7, 2016	2%	December 1, 2040	7,073,924
Loan No. 3725 PAL Disaster Resilience Program	October 17, 2018	0.8%	September 15, 2035	15,000,000
Loan No. 3955 PAL Health Expenditures and Livelihoods Support Program	August 3, 2020	2%	July 15, 2045	20,000,000
Loan No. 4030 PAL Palau Public Utilities Corporation Reform Program #1	December 10, 2020	2%	December 1, 2045	5,000,000
Loan No. 4063 PAL Recovery through Improved Systems and Expenditure Support	May 17, 2021	0.59%	April 15, 2036	5,000,000
Loan No. 4064 PAL Recovery through Improved Systems and Expenditure Support	May 17, 2021	0.59%	April 15, 2036	<u>20,000,000</u>
				<u>117,369,151</u>
Mega International Commercial Bank (MICB):				
Loan No. 070026 Palau International Airport Repaving Project	August 24, 2004	3.5%	October 28, 2024	1,600,038
Loan No. 025-105002 Agriculture and Aquaculture Development Project	March 31, 2016	1.27%	March 31, 2036	4,142,858
Loan No. 025-105003 Housing Project	April 8, 2016	2.24%	April 8, 2036	4,285,715
Loan No. 025-107001 Housing Loan	September 6, 2019	1.29%	September 6, 2039	<u>15,000,000</u>
				<u>25,028,611</u>
International Cooperation and Development Fund (ICDF):				
Women and Youth Entrepreneurs	March 30, 2020	4%	March 30, 2041	<u>3,000,000</u>
				<u>\$145,397,762</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.

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Primary Government, continued

Asian Development Bank (ADB), continued

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.

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

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

Loan Number 3347 PAL (SF) in an amount of various currencies equivalent to SDR 6,032,000 is to be on-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.

Loan Number 4030 PAL (COL) in the amount of \$5,000,000 is to be on-lent to PPUC to improve the financial sustainability of PPUC.

Loan Number 4063 PAL in the amount of \$5,000,000 is for post-COVID19 economic recovery through improved systems and expenditure support.

Loan Number 4064 PAL (COL) in the amount of \$20,000,000 is for post-COVID19 economic recovery through improved systems and expenditure support.

The abovementioned ADB loans are uncollateralized and are backed by the full faith and credit of the Republic. The abovementioned loans are designated and measured by the ADB using Special Drawing Rights (SDRs). The value of a SDR is defined by a weighted currency basket of five major currencies: the U.S. Dollar, the Chinese Yuan, the Euro, the British Pound, and the Japanese Yen. Accordingly, ADB loans denominated in SDR are subject to remeasurement at the year-end SDR exchange rate.

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Primary Government, continued

Asian Development Bank (ADB), continued

In addition, the International Monetary Fund (IMF) re-evaluates this currency basket every five years. The effects of foreign currency transaction gains or losses resulting from year-end remeasurement, or IMF re-evaluation are included in the government-wide financial statements in the period when such remeasurement or re-evaluation occurs.

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 - if 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 may be, until the event which gave rise to such suspension shall have, in the 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 loan 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 and is to be on-lent to the National Development Bank of Palau (NDBP).

Loan Number 025-105003 in the amount \$5,000,000 is to finance the development of housing and is to be on-lent to the Palau Housing Authority (PHA).

Loan Number 025-107001 in the amount of \$15,000,000 is to finance the housing development loan project and is to be on-lent to PHA and NDBP.

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Primary Government, continued

Mega International Commercial Bank (MICB), continued

The abovementioned MICB loans are uncollateralized and are backed by the full faith and credit of the Republic. 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 always 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 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.
- (d) Furnish or cause to be furnished to the Lender all such information and documents as the Lender may reasonably 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.

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Primary Government, continued

Mega International Commercial Bank (MICB), continued

- (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.

International Cooperation and Development Fund (ICDF)

Loan Number PLW 01 2105 in the amount of \$5,000,000 is to be on-lent to NDBP to finance the implementation of women and youth entrepreneurs' project.

The abovementioned ICDF loan is uncollateralized and is backed by the full faith and credit of the Republic.

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 always rank at least pari passu with all its other present and future unsecured and unsubordinated indebtedness.

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Primary Government, continued

International Cooperation and Development Fund (ICDF), continued

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.
- (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>
2022	\$ 6,335,057	\$ 1,668,535	\$ 8,003,592
2023	7,061,001	1,835,468	8,896,469
2024	7,194,297	1,732,509	8,926,806
2025	7,529,400	1,663,301	9,192,701
2026	7,841,034	1,587,638	9,428,672
2027-2031	39,850,402	6,495,555	46,345,957
2032-2036	36,117,336	4,027,861	40,145,197
2037-2041	23,070,654	1,850,190	24,920,844
2042-2046	<u>10,398,581</u>	<u>480,226</u>	<u>10,878,807</u>
	<u>\$145,397,762</u>	<u>\$21,341,283</u>	<u>\$166,739,045</u>

Changes in long-term debt of the primary government for the year ended September 30, 2021 was as follows:

	<u>Balance</u> <u>October 1,</u> <u>2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>September</u> <u>30, 2021</u>	<u>Due Within</u> <u>One Year</u>
Loans payable:					
ADB loans	\$ 86,854,945	\$33,694,564	\$(3,180,358)	\$117,369,151	\$4,877,919
MICB loans	26,057,181	---	(1,028,570)	25,028,611	1,457,138
ICDF loans	<u>3,000,000</u>	---	---	<u>3,000,000</u>	---
	<u>\$115,912,126</u>	<u>\$33,694,564</u>	<u>\$(4,208,928)</u>	<u>\$145,397,762</u>	<u>\$6,335,057</u>

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Discretely Presented Component Units

As of September 30, 2021, 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	March 5, 2004	3.5%	July 1, 2024	\$ 857,118
Palau National Communications Corporation: Rural Utilities Services	October 1, 1992	4.59%	October 1, 2029	16,570,858
Palau Public Utilities Corporation: Mega International Commercial Bank	September 4, 2006	3.5%	December 11, 2026	<u>2,200,000</u>
				<u>\$19,627,976</u>

National Development Bank of Palau (NDBP)

The MICB loan is to be used as capital funds; is uncollateralized and is 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.
- (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.

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Discretely Presented Component Units, continued

National Development Bank of Palau (NDBP), continued

The loan agreement contains a provision that in an event of default, the Lender may by written notice to NDBP 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 NDBP.

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>
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>\$857,118</u>	<u>\$59,997</u>	<u>\$917,115</u>

Palau National Communications Corporation (PNCC)

The RUS note is collateralized by substantially all PNCC's assets and a pledge of 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 follows the RUS mortgage loan covenants.

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

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 1,422,815	\$ 882,957	\$ 2,305,772
2023	1,521,388	784,384	2,305,772
2024	1,625,276	680,496	2,305,772
2025	1,734,840	570,932	2,305,772
2026	1,850,470	455,302	2,305,772
2027 - 2029	<u>8,416,069</u>	<u>604,063</u>	<u>9,020,132</u>
	<u>\$16,570,858</u>	<u>\$3,978,134</u>	<u>\$20,548,992</u>

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Discretely Presented Component Units, continued

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</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 400,000	\$ 73,500	\$ 473,500
2023	400,000	59,500	459,500
2024	400,000	45,500	445,500
2025	400,000	31,500	431,500
2026	400,000	17,500	417,500
2027	<u>200,000</u>	<u>3,500</u>	<u>203,500</u>
	<u>\$2,200,000</u>	<u>\$231,000</u>	<u>\$2,431,000</u>

Changes in long-term debt of the discretely presented component units for the year ended September 30, 2021 was as follows:

	<u>Balance</u> <u>October 1,</u> <u>2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>September</u> <u>30, 2021</u>	<u>Due Within</u> <u>One Year</u>
Loans payable:					
NDBP loans	\$ 1,142,834	\$ ---	\$(285,716)	\$ 857,118	\$ 285,716
PNCC loans	16,593,735	---	(22,877)	16,570,858	1,422,815
PPUC loans	<u>2,600,000</u>	<u>---</u>	<u>(400,000)</u>	<u>2,200,000</u>	<u>400,000</u>
	<u>\$20,336,569</u>	<u>\$ ---</u>	<u>\$(708,593)</u>	<u>\$19,627,976</u>	<u>\$2,108,531</u>

8. Change in Other Long-term Liabilities

Primary Government

During the year ended September 30, 2021, the following changes occurred in other liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	<u>Balance</u> <u>October 1,</u> <u>2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>September</u> <u>30, 2021</u>	<u>Due Within</u> <u>One Year</u>
Other liabilities:					
Compensated absences	\$ 5,280,791	\$ ---	\$(132,177)	\$ 5,148,614	\$1,877,286
Net pension liability	<u>190,213,933</u>	<u>23,756,277</u>	<u>---</u>	<u>213,970,210</u>	<u>---</u>
	<u>\$195,494,724</u>	<u>\$23,756,277</u>	<u>\$(132,177)</u>	<u>\$219,118,824</u>	<u>\$1,877,286</u>

Republic of Palau

Notes to Financial Statements, continued

8. Change in Other Long-term Liabilities, continued

Discretely Presented Component Units

Changes in other long-term liabilities of the discretely presented component units for the year ended September 30, 2021, are as follows:

	Balance October 1, <u>2020</u>	Additions	Reductions	Balance September 30, 2021	Due Within One Year
Other liabilities:					
Net pension liability	\$ 56,162,255	\$ 5,812,456	\$ ---	\$ 61,974,711	\$ ---
Due to primary government:					
NDBP	4,670,716	3,000,000	(426,481)	7,244,235	387,092
PHA	4,571,429	---	(285,714)	4,285,715	285,714
PPUC	23,087,480	5,000,000	(586,311)	27,501,169	1,111,379
BSCC	20,244,149	576,670	---	20,820,819	1,177,196
Due to fiduciary funds:					
NDBP	<u>2,075,322</u>	<u>---</u>	<u>(344,363)</u>	<u>1,730,959</u>	<u>353,352</u>
	<u>\$110,811,351</u>	<u>\$14,389,126</u>	<u>\$(1,642,869)</u>	<u>\$123,557,608</u>	<u>\$3,314,733</u>

9. Restricted Assets

Primary Government

Investments held in a trust fund for the purpose of accumulating resources to fund future government operations. \$317,542,264

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. 5,843,214
\$323,385,478

Discretely Presented Component Units

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

National Development Bank of Palau

Deposit accounts for Housing Development Loan Project. \$ 2,188,991

Palau Community College

Deposit accounts established for library fund and endowment fund. 2,095,711

Investments held for endowment purposes. 7,557,306

Republic of Palau

Notes to Financial Statements, continued

9. Restricted Assets, continued

Palau National Communications Corporation

Account established in accordance with Rural Utilities

Service loan agreement for the purposes of a reserve account.

250,171
\$12,092,179

10. Pension Plan

The Republic is statutorily responsible for providing pension benefits for Republic employees through the Republic of Palau Civil Service Pension Trust Fund.

General Information About the Pension Plan

Plan Description: The Republic contributes to the Republic of Palau Civil Service Plan (the Plan), a defined benefit, cost-sharing multiple-employer 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 33 PNCA 20 and began operations on October 1, 1987.

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

Plan Membership: The Republic, ROP State Governments and ROP public corporations, quasi-governmental organizations and other public entities are participating in the plan. 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 30 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 20 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.

Republic of Palau

Notes to Financial Statements, continued

10. Pension Plan, continued

General Information About the Pension Plan, continued

Benefits Provided, continued: Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, members, who have 25 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, retirement is mandatory for all members who have 30 years or more of total service and all employees who are 60 years of age or older with certain exceptions. Beginning October 1, 2003, mandatory retirement may be delayed for up to 5 years, by specific exemption by the Board of Trustees. On April 30, 2013, the mandatory service retirement requirement after 30 years of service was eliminated. Effective January 1, 2014, employees were no longer entitled to pension benefits until reaching the age of 60 years.

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 5 years or has made an actuarially equivalent lump sum contribution”. Members who retire after April 30, 2013 must not receive benefits greater than \$30,000 per year. Further, the benefits amount 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 subsequently re-employed after retirement.

Currently, normal benefits are paid monthly and represent 2% of each member’s average monthly salary for each year of credited total service up to a maximum of 30 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.

Republic of Palau

Notes to Financial Statements, continued

10. Pension Plan, continued

General Information About the Pension Plan, continued

Benefits Provided, continued: 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.
- plus an additional 1/50th per year for each year in excess of 11 years.

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

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

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

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

Republic of Palau

Notes to Financial Statements, continued

10. Pension Plan, continued

General Information About the Pension Plan, continued

Benefits Provided, continued: Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least 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 at 6% 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 15 years membership service may elect to receive a refund of all 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. Each employee of the Republic and all ROP State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, are required to contribute to the Plan through payroll deduction.

The Republic's contributions to the Plan for the year ended September 30, 2021 were \$2,221,271, which was equal to the statutorily required contributions.

Actuarial Assumptions: Actuarially determined contribution rates were determined by an actuarial valuation as of September 30, 2019, with a September 30, 2020 measurement date, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method.
Amortization Method:	Level dollar, open with remaining amortization period of 30 years.
Asset Valuation Method:	Market Value of Assets.
Investment Income:	6.74% per year, net of investment expenses, including price inflation.
Price Inflation:	2.5% per year.

Republic of Palau

Notes to Financial Statements, continued

10. Pension Plan, continued

General Information About the Pension Plan, continued

Actuarial Assumptions, continued:

Interest on Member Contributions:	5.0% per year.	
Salary Increase:	3.0% per year.	
Expenses:	\$300,000 added to normal cost.	
Mortality:	RP-2000 combined mortality table, set forward 4 years for all members except disability recipients, where the table is set forward 10 years.	
Termination of Employment:	5% for ages 20 to 39; none for all other ages.	
Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%
Retirement age:	100% at age 60 years.	
Form of payment:	Single: Straight life annuity; Married: 100% joint and survivor.	
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.	
Duty vs Non-duty related disability:	100% Duty related.	

Republic of Palau

Notes to Financial Statements, continued

10. Pension Plan, continued

General Information About the Pension Plan, continued

Actuarial Assumptions, continued:

Refund of Contributions:	80% of terminated vested members elect a refund of contributions.
Post-retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death.
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.

Investment Rate of Return: The long-term expected rate of return on the Plan's investments of 6.74% 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	<u>10%</u>	8.33%
	<u>100%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 2.28% at the current measurement date. The discount rate was determined using the current assumed rate of return of 6.74% until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2025. For years on or after 2025, a discount rate of 2.28% was used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

Republic of Palau

Notes to Financial Statements, continued

10. Pension Plan, continued

General Information About the Pension Plan, continued

Discount Rate Sensitivity Analysis: The following presents the Republic's proportionate share of the net pension liability as of September 30, 2021, calculated using the discount rate of 2.28% as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (1.28%) or 1% higher (3.28%) than the current discount rate.

1% Decrease in Discount Rate <u>1.28%</u>	Current Discount Rate <u>2.28%</u>	1% Increase in Discount Rate <u>3.28%</u>
<u>\$249,706,623</u>	<u>\$213,970,210</u>	<u>\$184,494,386</u>

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

Pension Liability: At September 30, 2021, the Republic reported a liability of \$213,970,210 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 Plan relative to the projected contributions of the Republic, the Republic's component units and other government agencies, actuarially determined. At September 30, 2021, the Republic's proportion was 62.1348%.

Pension Expense: For the year ended September 30, 2021, the Republic recognized pension expense of \$14,511,705.

Deferred Outflows and Inflows of Resources: As of September 30, 2021, the Republic reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ 7,201,931	\$ 5,660,088
Change of assumptions	45,914,711	13,449,826
Net difference between projected and actual earnings on pension plan investments	399,780	273,889
Contributions subsequent to the measurement date	2,221,271	---
Changes in proportion and difference between Republic contributions and proportionate share of contributions	<u>8,541,077</u>	<u>9,896,696</u>
	\$ <u>64,278,770</u>	\$ <u>29,280,499</u>

Republic of Palau

Notes to Financial Statements, continued

10. Pension Plan, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

Deferred outflows resulting from contributions after the measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of September 30, 2021, will be recognized in pension expense as follows:

<u>Year Ended</u> <u>September 30</u>	
2022	\$ 7,124,705
2023	6,978,880
2024	4,947,067
2025	4,764,067
2026	6,594,083
Thereafter	<u>2,368,198</u>
	<u>\$32,777,000</u>

11. Transfers In/Out

Operating transfers in/out for each major fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2021, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund:		
Grants Fund	\$ ---	\$ 408,257
Other governmental funds	---	907,529
Compact Section 211(f) Fund	<u>---</u>	<u>15,000,000</u>
	<u>---</u>	<u>16,315,786</u>
Grants Fund:		
General Fund	408,257	---
Other governmental funds	<u>1,221,228</u>	<u>600,000</u>
	<u>1,629,485</u>	<u>600,000</u>
Compact Section Fund:		
General Fund	<u>15,000,000</u>	<u>---</u>
Other governmental funds:		
Grants Fund	600,000	1,221,228
General Fund	<u>907,529</u>	<u>---</u>
	<u>1,507,529</u>	<u>1,221,228</u>
	<u>\$18,137,014</u>	<u>\$18,137,014</u>

Republic of Palau

Notes to Financial Statements, continued

11. Transfers In/Out, continued

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

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>	<u>Permanent Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
Nonspendable:					
UMDA investment	\$ 1,191,965	\$ ---	\$ ---	\$ ---	\$ 1,191,965
Loan receivable - NDBP	7,244,235	---	---	---	7,244,235
Loan receivable - PDHA	4,285,715	---	---	---	4,285,715
Loan receivable - PPUC	27,501,169	---	---	---	27,501,169
Loan receivable - BSCC	20,820,819	---	---	---	20,820,819
Permanent fund principal	---	---	<u>323,385,478</u>	---	<u>323,385,478</u>
	<u>61,043,903</u>	<u>---</u>	<u>323,385,478</u>	<u>---</u>	<u>384,429,381</u>
Restricted:					
Housing Development Loan Project	1,495,593	---	---	---	1,495,593
Health Expenditure and Livelihood Support	13,726,888	---	---	---	13,726,888
Compact related	---	3,654,525	---	---	3,654,525
Other	---	<u>2,162,338</u>	---	---	<u>2,162,338</u>
	<u>15,222,481</u>	<u>5,816,863</u>	<u>---</u>	<u>---</u>	<u>21,039,344</u>
Committed:					
Protected Area Network	169,276	---	---	---	169,276
Financial Institutions Commission	259,042	---	---	---	259,042
Non-lapsing	2,707,860	---	---	---	2,707,860
Cyclical Reserve	4,570,147	---	---	---	4,570,147
ROC Capital Projects	---	1,856,936	---	---	1,856,936
Environmental protection	---	---	---	478,848	478,848
Hospital	---	---	---	5,576,979	5,576,979
Road maintenance	---	---	---	1,878,295	1,878,295
Publication law access unit	---	---	---	58,441	58,441
Forfeited property	---	---	---	289,180	289,180
Non-Communicable Diseases	---	---	---	2,739,863	2,739,863
Fisheries Protection	---	---	---	3,818,444	3,818,444
Other	---	---	---	<u>24,093</u>	<u>24,093</u>
	<u>7,706,325</u>	<u>1,856,936</u>	<u>---</u>	<u>14,864,143</u>	<u>24,427,404</u>
Unassigned	<u>27,057,837</u>	<u>(159,530)</u>	<u>---</u>	<u>(687)</u>	<u>26,897,620</u>
	<u>\$111,030,546</u>	<u>\$7,514,269</u>	<u>\$323,385,478</u>	<u>\$14,863,456</u>	<u>\$456,793,749</u>

Republic of Palau

Notes to Financial Statements, continued

13. Commitments and Contingencies

Sick Leave

It is the policy of the Republic to record expenditures for sick leave when leave is 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, 2021, amounted to \$11,635,218.

Federal Grants

Pursuant to the Compact of Free Association, substantially all federal grant activity provided by grantors other than the U.S. Department of the Interior is to phase out over the period of the Compact.

The Republic participates in several 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, 2021. 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.

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.

Unfunded Liability

An actuarial valuation of the Republic of Palau Social Security Administration (ROPSSA) has determined that the Retirement Fund has an actuarial deficiency of approximately \$438,102,000 as of October 1, 2020. 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, ROPSSA's cash flows may eventually become negative, which may cause ROPSSA to become depleted to the point that ROPSSA may not be able to meet its benefit obligations. ROPSSA has not developed a formal plan as of September 30, 2021 to correct this funding deficiency. No recognition is given in the accompanying financial statements to the present value of liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

Republic of Palau

Notes to Financial Statements, continued

13. Commitments and Contingencies, continued

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.

Debt Commitments

Significant commitments of the primary government as of September 30, 2021, are as follows:

- a) Guaranteed bank debt of the National Development Bank of Palau (NDBP) with letters of guarantee. As of September 30, 2021, NDBP had guaranteed debt totaling \$3,857,118.
- 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. As of September 30, 2021, NDBP had guaranteed debt associated with this loan totaling \$1,730,959.
- 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. As of September 30, 2021, PNCC had guaranteed debt totaling \$16,570,858.
- d) Guaranteed bank debt of the Palau Public Utilities Corporation (PPUC) with a letter of guarantee. As of September 30, 2021, PPUC had guaranteed debt totaling \$2,200,000.

Asian Development Bank (ADB) Loans

In 2014, the Republic executed 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, 2021, the Republic had drawn down \$22,501,168 against these loans. A substantial portion of the ADB loans is subject to currency exchange adjustments that can ultimately impact the carrying values of the debt.

In 2016, the Republic executed two loans (Loan Number 3346-PAL and Loan Number 3347-PAL(SF)) with the Asian Development Bank in the combined amount of \$23,550,000. As of September 30, 2021, the Republic had drawn \$20,820,819 against these loans.

Republic of Palau

Notes to Financial Statements, continued

13. Commitments and Contingencies, continued

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, 2021, the Republic had paid for all the leases. Annual lease requirements to expiration of the lease terms are as follows:

Year Ending <u>September 30,</u>	
2022	\$ 247,622
2023	247,622
2024	247,622
2025	247,622
2026	247,622
2027 - 2031	1,238,110
2032 - 2036	1,238,110
2037 - 2041	1,238,110
2042 - 2044	<u>745,613</u>
	<u>\$5,698,053</u>

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, 2021, 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, 2021, PIAC Balance Sheet and Statement of Loss and Deficit are as follows:

Total assets	<u>\$42,477,896</u>
Total current liabilities	<u>\$ 4,446,205</u>
Total long-term debt	<u>\$19,783,792</u>
Total net shareholder's equity	<u>\$18,247,899</u>
Total liabilities and shareholder's equity	<u>\$42,477,896</u>
Revenues	<u>\$ 402,897</u>
Operating expenses and other expenses	<u>\$ 1,456,962</u>
Deficit at beginning of year	<u>\$(1,797,075)</u>
Deficit at end of year	<u>\$(2,851,140)</u>

Republic of Palau

Notes to Financial Statements, continued

15. Subsequent Events

On August 15, 2022, the Republic executed a \$5,000,000 loan (Loan Number 4198 PAL (COL)) with the Asian Development Bank (ADB) for the purpose of improving the financial stability of the Palau Public Utilities Corporation.

On September 15, 2022, the Republic executed a \$30,000,000 loan (Loan Number 4206 PAL) with the ADB for the purpose of assisting the Republic's economic recovery from COVID-19.

On January 1, 2023, the Republic implemented a new tax regime to comprehensively reform and modernize the tax code, and to implement a Palau Goods and Services Tax.

On June 3, 2024, the Republic executed a \$12,500,000 loan (Loan Number 4448 PAL (COL)) with the ADB for the purpose of strengthening tax and customs administration systems.

Required Supplementary Information

Republic of Palau

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund (Fund 1000) Year ended September 30, 2021

	<u>Original</u>	<u>Final</u>	<u>Actual - Budgetary Basis</u>	<u>Variance</u>
	<u>Budget</u>	<u>Budget</u>	<u>(see note 1)</u>	
Revenues:				
Local revenue	\$ 36,198,670	\$ 38,951,613	\$ 48,160,484	\$ 9,208,871
Net change in the fair value of investments	---	---	15,708	15,708
Total revenues	<u>36,198,670</u>	<u>38,951,613</u>	<u>48,176,192</u>	<u>9,224,579</u>
Expenditures - budgetary basis:				
Office of the President	1,207,371	1,345,592	1,243,887	101,705
Office of the Vice-President	640,830	640,830	605,655	35,175
Ministry of Finance	4,326,307	5,583,014	5,271,297	311,717
Ministry of State	4,248,921	4,248,921	3,778,481	470,440
Ministry of Community and Cultural Affairs	659,644	659,644	478,778	180,866
Ministry of Education	9,151,763	9,151,763	8,581,110	570,653
Ministry of Public Infrastructure, Industry and Commerce	7,304,806	7,304,806	6,529,332	775,474
Ministry of Justice	7,191,434	7,191,434	6,582,423	609,011
Ministry of Health	11,876,181	12,016,781	10,170,777	1,846,004
Ministry of Natural Resources, Environment and Tourism	1,663,806	1,663,806	1,412,469	251,337
Boards, Commissions and Authorities	1,396,271	1,396,271	988,955	407,316
Judicial Branch	3,192,000	3,192,000	3,133,147	58,853
Legislative Branch	6,051,249	6,051,249	5,719,112	332,137
State Block Grants	8,456,000	8,456,000	8,455,900	100
Independent Agencies	3,433,420	3,433,420	3,138,591	294,829
Other Agencies and Activities	1,806,000	1,806,000	1,732,836	73,164
Education Assistance	3,568,000	3,568,000	3,568,000	---
Other Appropriations	12,265,000	16,663,015	15,022,768	1,640,247
Total expenditures	<u>88,439,003</u>	<u>94,372,546</u>	<u>86,413,518</u>	<u>7,959,028</u>
Deficiency of revenues under expenditures	(<u>52,240,333</u>)	(<u>55,420,933</u>)	(<u>38,237,326</u>)	<u>17,183,607</u>
Other financing sources (uses):				
Loan proceeds	13,329,969	14,829,969	8,694,564	(6,135,405)
Operating transfers in	41,007,000	42,687,600	42,284,320	(403,280)
Operating transfers out	(<u>10,585,398</u>)	(<u>10,585,398</u>)	(<u>14,191,676</u>)	(<u>3,606,278</u>)
Total other financing sources (uses), net	<u>43,751,571</u>	<u>46,932,171</u>	<u>36,787,208</u>	(<u>10,144,963</u>)
	(<u>8,488,762</u>)	(<u>8,488,762</u>)	(<u>1,450,118</u>)	7,038,644
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	337,003	337,003	438,863	101,860
Net change in fund balance	\$ (<u>8,151,759</u>)	\$ (<u>8,151,759</u>)	\$ (<u>1,011,255</u>)	\$ <u>7,140,504</u>

Republic of Palau

Notes to Required Supplementary Information - Budgetary Reporting

September 30, 2021

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 affected through OEK approval.

The Appropriations Act for fiscal year 2021, RPPL No. 11-3, was passed by the OEK on March 23, 2021. Prior to that, the Republic was operating through continuing appropriation authority on RPPL No. 10-58 as passed by the OEK in September 2020. Formal budget integration is employed as a management control device during the year. The Republic has the authority to reprogram budgeted estimates in accordance with the Constitution. All annual appropriations lapse at fiscal year-end unless otherwise specified by law. 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	\$(1,011,255)
GASB 54 Funds included within the General Fund:	
PAN Fund (Fund 1010)	77,400
Financial Institutions Commission Fund (Fund 1030)	36,830
Non-Lapsing Fund (Fund 1140)	985,851
Receivable Fund (Fund 1160)	(49,953)
Cyclical Reserve Fund (Fund	4,570,147
Debt Service Fund (Fund 5000)	(4,874,811)
Scholarship Fund (Fund 1100)	140,237
Compact Section 213 Fund (Fund 1150)	1,120,015
Local CIP Fund (Fund 4000)	<u>(685,035)</u>
	<u>1,320,261</u>
	<u>\$ 309,426</u>

Other Supplementary Information

Republic of Palau

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

	2021	2020	2019	2018	2017	2016	2015	2014
Pension Fund total net pension liability	\$ 344,384,167	\$ 308,480,463	\$ 250,868,784	\$ 259,395,005	\$ 249,453,960	\$ 215,546,176	\$ 204,281,232	\$ 182,080,330
The Republic's proportionate share of the net pension liability	\$ 213,970,210	\$ 190,213,933	\$ 156,146,459	\$ 162,657,269	\$ 157,823,499	\$ 137,096,288	\$ 129,957,796	\$ 117,770,883
The Republic's proportion of the net pension liability	62.13%	61.66%	62.24%	62.71%	63.27%	63.60%	63.62%	64.68%
The Republic's covered employee payroll**	\$ 38,104,666	\$ 36,849,200	\$ 36,515,250	\$ 36,294,800	\$ 33,508,473	\$ 30,846,144	\$ 23,572,912	\$ 23,967,024
The Republic's proportionate share of the net pension liability as a percentage of its covered employee payroll	562%	516%	428%	448%	471%	444%	551%	491%
Pension Fund fiduciary net position as a percentage of the total pension liability	8.26%	8.26%	10.24%	10.18%	10.55%	11.54%	14.01%	15.84%

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

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

Republic of Palau
Schedule of Pension Contributions
Last Ten Fiscal Years * (Unaudited)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 2,370,938	\$ 2,216,549	\$ 2,182,564	\$ 2,107,927	\$ 2,016,822	\$ 1,858,477	\$ 1,785,089	\$ 1,666,717
Contribution in relation to the contractually required contribution	<u>2,286,280</u>	<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>	<u>1,627,361</u>
Contribution excess(deficiency)	<u>\$ 84,658</u>	<u>\$ 5,597</u>	<u>\$ (8,358)</u>	<u>\$ (71,764)</u>	<u>\$ 33,850</u>	<u>\$ 20,031</u>	<u>\$ 23,969</u>	<u>\$ 39,356</u>
The Republic's covered-employee payroll**	<u>\$ 38,104,666</u>	<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>	<u>\$ 23,967,024</u>
Contribution as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.01%	5.92%	5.96%	7.47%	6.79%

*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.

Republic of Palau

General Fund

September 30, 2021

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.

Republic of Palau

GENERAL FUND

Combining Balance Sheet
September 30, 2021

		1100	1150
	<u>General</u>	<u>Scholarship</u>	<u>Compact Section 213</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 47,172,980	\$ ---	\$ ---
Investments	5,000,000	---	6,438,184
Receivables, net:			
Taxes	4,095,649	---	---
General	799,950	---	---
Due from component units	59,851,938	---	---
Due from other funds	54,713,128	---	---
Advances	7,190	---	---
Prepaid items	74,836	---	---
Other assets	1,191,965	---	---
	<u>\$ 172,907,636</u>	<u>\$ ---</u>	<u>\$ 6,438,184</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>(DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ 4,220,780	\$ 51,818	\$ ---
Contracts payable	104,076	---	---
Due to State governments	415,684	---	---
Due to other funds	64,471,168	17,728	---
Accrued payroll and others	2,749,953	1,645	---
Interest payable	259,042	---	---
Deferred revenue	29,000	---	---
Beverage container refund payable	1,167,543	---	---
Other liabilities and accruals	646,428	---	---
Income tax refunds	745,761	---	---
	<u>74,809,435</u>	<u>71,191</u>	<u>---</u>
Fund balances (deficit):			
Nonspendable	61,043,903	---	---
Restricted	15,222,481	---	---
Committed	7,706,325	---	---
Unassigned	14,125,492	(71,191)	6,438,184
	<u>98,098,201</u>	<u>(71,191)</u>	<u>6,438,184</u>
Total fund balances (deficit)	<u>98,098,201</u>	<u>(71,191)</u>	<u>6,438,184</u>
Total liabilities and fund balances (deficit)	<u>\$ 172,907,636</u>	<u>\$ ---</u>	<u>\$ 6,438,184</u>

Republic of Palau

GENERAL FUND

Combining Balance Sheet, Continued
September 30, 2021

	4000		
	<u>Local CIP</u>	<u>Elimination</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ ---	\$ ---	\$ 47,172,980
Investments	---	---	11,438,184
Receivables, net:			
Taxes	---	---	4,095,649
General	---	---	799,950
Due from component units	---	---	59,851,938
Due from other funds	6,565,352	(45,778,336)	15,500,144
Advances	---	---	7,190
Prepaid items	---	---	74,836
	---	---	1,191,965
	<u>---</u>	<u>---</u>	<u>---</u>
Total assets	<u>\$ 6,565,352</u>	<u>\$ (45,778,336)</u>	<u>\$ 140,132,836</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>(DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ ---	\$ ---	\$ 4,272,598
Contracts payable	---	---	104,076
Due to State governments	---	---	415,684
Due to other funds	---	(45,778,336)	18,710,560
Accrued payroll and others	---	---	2,751,598
Interest payable	---	---	259,042
Unearned revenues	---	---	29,000
Beverage container refund payable	---	---	1,167,543
Other liabilities and accruals	---	---	646,428
Income tax refunds	---	---	745,761
	<u>---</u>	<u>---</u>	<u>---</u>
Total liabilities	<u>---</u>	<u>(45,778,336)</u>	<u>29,102,290</u>
Fund balances (deficit):			
Nonspendable	---	---	61,043,903
Restricted	---	---	15,222,481
Committed	---	---	7,706,325
Unassigned	6,565,352	---	27,057,837
	<u>6,565,352</u>	<u>---</u>	<u>111,030,546</u>
Total fund balances (deficit)	<u>6,565,352</u>	<u>---</u>	<u>111,030,546</u>
Total liabilities and fund balances (deficit)	<u>\$ 6,565,352</u>	<u>\$ (45,778,336)</u>	<u>\$ 140,132,836</u>

Republic of Palau

GENERAL FUND

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balance (Deficit)
Year ended September 30, 2021

	1100		1150	
	General	Scholarship	Compact Section 213	
	<u> </u>	<u> </u>	<u> </u>	
Taxes	\$ 36,698,346	\$ ---	\$ ---	
Net change in the fair value of investments	15,708	---	1,120,015	
Fees and charges	3,799,819	---	---	
Licenses and permits	10,004,568	551,067	---	
Other	1,787,382	44,096	---	
Total revenues	<u>52,305,823</u>	<u>595,163</u>	<u>1,120,015</u>	
Expenditures:				
Current:				
Judicial Branch	3,133,147	---	---	
Legislative Branch	5,786,434	---	---	
Office of the President	1,242,549	---	---	
Office of the Vice-President	605,103	---	---	
Ministry of Finance	4,350,815	---	---	
Ministry of State	4,041,568	---	---	
Ministry of Community and Cultural Affairs	568,065	---	---	
Ministry of Education	8,674,302	---	---	
Ministry of Public Infrastructure, Industry and Commerce	7,143,463	---	---	
Ministry of Justice	6,418,914	---	---	
Ministry of Health	11,823,295	---	---	
Ministry of Natural Resources, Environment and Tourism	1,358,731	---	---	
Boards, Commissions, and Authorities	1,138,115	---	---	
State Block Grants	8,455,900	---	---	
Independent Agencies	3,137,067	---	---	
Payments to component units	22,706,922	---	---	
Other Agencies and Activities	1,750,836	---	---	
Education assistance	3,568,000	2,454,929	---	
Capital projects	---	---	---	
Debt service:				
Principal retirement	4,208,928	---	---	
Interest	828,807	---	---	
Total expenditures	<u>100,940,961</u>	<u>2,454,929</u>	<u>---</u>	
Excess (deficiency) of revenues over (under) expenditures	(48,635,138)	(1,859,766)	1,120,015	
Other financing sources (uses):				
Loan proceeds	33,694,564	---	---	
Operating transfers in	54,355,599	2,000,003	---	
Operating transfers out	(39,680,816)	---	---	
Total other financing sources (uses), net	<u>48,369,347</u>	<u>2,000,003</u>	<u>---</u>	
Net change in fund balances (deficit)	(265,791)	140,237	1,120,015	
Fund balances (deficit) at beginning of year	<u>98,363,992</u>	(211,428)	<u>5,318,169</u>	
Fund balances (deficit) at end of year	<u>\$ 98,098,201</u>	<u>\$ (71,191)</u>	<u>\$ 6,438,184</u>	

Republic of Palau

GENERAL FUND

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balance (Deficit), Continued
Year ended September 30, 2021

	4000		
	Local CIP	Elimination	Total
Revenues:			
Taxes	\$ ---	\$ ---	\$ 36,698,346
Net change in the fair value of investments	---	---	1,135,723
Fees and charges	---	---	3,799,819
Licenses and permits	---	---	10,555,635
Other	10,560	---	1,842,038
Total revenues	<u>10,560</u>	<u>---</u>	<u>54,031,561</u>
Expenditures:			
Current:			
Judicial Branch	---	---	3,133,147
Legislative Branch	---	---	5,786,434
Office of the President	---	---	1,242,549
Office of the Vice-President	---	---	605,103
Ministry of Finance	---	---	4,350,815
Ministry of State	---	---	4,041,568
Ministry of Community and Cultural Affairs	---	---	568,065
Ministry of Education	---	---	8,674,302
Ministry of Public Infrastructure, Industry and Commerce	---	---	7,143,463
Ministry of Justice	---	---	6,418,914
Ministry of Health	---	---	11,823,295
Ministry of Natural Resources, Environment and Tourism	---	---	1,358,731
Boards, Commissions, and Authorities	---	---	1,138,115
State Block Grants	---	---	8,455,900
Independent Agencies	---	---	3,137,067
Payments to component units	---	---	22,706,922
Other Agencies and Activities	---	---	1,750,836
Education assistance	---	---	6,022,929
Capital projects	336,595	---	336,595
Debt service:			
Principal retirement	---	---	4,208,928
Interest	---	---	828,807
Total expenditures	<u>336,595</u>	<u>---</u>	<u>103,732,485</u>
Excess (deficiency) of revenues over (under) expenditures	(326,035)	---	(49,700,924)
Other financing sources (uses):			
Loan proceeds	---	---	33,694,564
Operating transfers in	---	(40,039,816)	16,315,786
Operating transfers out	(359,000)	40,039,816	---
Total other financing sources (uses), net	(359,000)	---	50,010,350
Net change in fund balances (deficit)	(685,035)	---	309,426
Fund balances (deficit) at beginning of year	<u>7,250,387</u>	<u>---</u>	<u>110,721,120</u>
Fund balances (deficit) at end of year	<u>\$ 6,565,352</u>	<u>\$ ---</u>	<u>\$ 111,030,546</u>

Republic of Palau

Grants Fund

September 30, 2021

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

Republic of Palau

GRANTS FUND

Combining Balance Sheet
September 30, 2021

	3000	3010	3030	3040	3050	4010	4020	4030	4040	
	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
ASSETS										
Cash and cash equivalents	\$ 1,177,838	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 1,177,838
Receivables, net:										
General	---	---	262	---	123,959	---	6,917,782	---	---	7,042,003
Federal agencies	---	1,011,762	7,574,522	---	---	2,940,059	---	---	1,080,243	12,606,586
Due from other funds	1,128,568	730,255	---	1,973,687	3,102,389	---	---	150,000	---	7,084,899
Advances	---	---	---	---	1,800	---	---	---	---	1,800
Prepaid items	---	---	172,150	10,147	492,634	---	3,398	---	---	678,329
Total assets	<u>\$ 2,306,406</u>	<u>\$ 1,742,017</u>	<u>\$ 7,746,934</u>	<u>\$ 1,983,834</u>	<u>\$ 3,720,782</u>	<u>\$ 2,940,059</u>	<u>\$ 6,921,180</u>	<u>\$ 150,000</u>	<u>\$ 1,080,243</u>	<u>\$ 28,591,455</u>
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ ---	\$ 51,406	\$ 722,008	\$ 96,019	\$ 44,849	\$ ---	\$ 1,830	\$ ---	\$ 98,000	\$ 1,014,112
Contracts payable	---	236,691	---	22,026	44,100	743,404	1,397,774	---	5,079	2,449,074
Retention payable	---	116,858	---	3,931	4,900	185,999	509,982	---	72,894	894,564
Unearned revenues	---	---	1,097,297	---	1,446,221	---	---	150,000	---	2,693,518
Due to other funds	---	---	6,014,290	---	---	1,999,104	5,004,503	---	904,270	13,922,167
Accrued payroll and others	---	943	72,869	6,575	17,926	---	5,438	---	---	103,751
Total liabilities	<u>---</u>	<u>405,898</u>	<u>7,906,464</u>	<u>128,551</u>	<u>1,557,996</u>	<u>2,928,507</u>	<u>6,919,527</u>	<u>150,000</u>	<u>1,080,243</u>	<u>21,077,186</u>
Fund balances:										
Restricted	2,306,406	1,336,119	---	---	2,162,786	11,552	---	---	---	5,816,863
Committed	---	---	---	1,855,283	---	---	1,653	---	---	1,856,936
Unassigned	---	---	(159,530)	---	---	---	---	---	---	(159,530)
Total fund balances	<u>2,306,406</u>	<u>1,336,119</u>	<u>(159,530)</u>	<u>1,855,283</u>	<u>2,162,786</u>	<u>11,552</u>	<u>1,653</u>	<u>---</u>	<u>---</u>	<u>7,514,269</u>
Total liabilities and fund balances	<u>\$ 2,306,406</u>	<u>\$ 1,742,017</u>	<u>\$ 7,746,934</u>	<u>\$ 1,983,834</u>	<u>\$ 3,720,782</u>	<u>\$ 2,940,059</u>	<u>\$ 6,921,180</u>	<u>\$ 150,000</u>	<u>\$ 1,080,243</u>	<u>\$ 28,591,455</u>

Republic of Palau

GRANTS FUND

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances
Year Ended September 30, 2021

	3000	3010	3030	3040	3050	4010	4020	4030	4040		
	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
Revenues:											
Federal contributions	\$ ---	\$ 1,265,207	\$ 30,376,775	\$ ---	\$ ---	\$ 3,418,371	\$ ---	\$ ---	\$ 1,975,028	\$ ---	\$ 37,035,381
Net change in the fair value of investments	28,958	---	---	---	---	---	---	---	---	---	28,958
Other grants	---	---	---	3,447,666	6,141,343	---	11,378,674	141,309	---	---	21,108,992
Total revenues	28,958	1,265,207	30,376,775	3,447,666	6,141,343	3,418,371	11,378,674	141,309	1,975,028	---	58,173,331
Expenditures:											
Current:											
Ministry of Finance	---	---	---	---	---	---	---	---	3	---	3
Ministry of Community and Cultural Affairs	---	---	---	38,035	92,704	---	65,745	---	---	---	196,484
Ministry of Education	---	---	2,243,336	355,299	310,628	---	---	---	---	---	2,909,263
Ministry of Public Infrastructure, Industry and Commerce	---	1,644,770	641,384	36,043	1,553,844	3,406,819	7,490,349	---	1,054,914	---	15,828,123
Ministry of Justice	883,200	---	254,066	---	383,487	---	285,383	141,309	---	---	1,947,445
Ministry of Health	---	---	9,603,977	603,998	208,715	---	582,830	---	---	---	10,999,520
Ministry of Natural Resources, Environment and Tourism	---	---	---	---	96,515	---	---	---	---	---	96,515
Payment to Component Units	---	---	---	130,000	---	---	---	---	---	---	130,000
State Governments	---	---	---	10,000	---	---	2,544,457	---	920,111	---	3,474,568
Other	---	---	16,982,140	419,008	922,838	---	---	---	---	---	18,323,986
Total expenditures	883,200	1,644,770	29,724,903	1,592,383	3,568,731	3,406,819	10,968,764	141,309	1,975,028	---	53,905,907
Excess (deficiency) of revenues over (under) expenditures	(854,242)	(379,563)	651,872	1,855,283	2,572,612	11,552	409,910	---	---	---	4,267,424
Other financing sources (uses):											
Operating transfers in	---	600,000	---	---	---	---	---	---	---	---	600,000
Operating transfers out	---	---	(811,402)	---	(409,826)	---	(408,257)	---	---	---	(1,629,485)
Total other financing sources (uses), net	---	600,000	(811,402)	---	(409,826)	---	(408,257)	---	---	---	(1,029,485)
Net change in fund balances	(854,242)	220,437	(159,530)	1,855,283	2,162,786	11,552	1,653	---	---	---	3,237,939
Fund balances at beginning of year	3,160,648	1,115,682	---	---	---	---	---	---	---	---	4,276,330
Fund balances at end of year	\$ 2,306,406	\$ 1,336,119	\$ (159,530)	\$ 1,855,283	\$ 2,162,786	\$ 11,552	\$ 1,653	\$ ---	\$ ---	\$ ---	\$ 7,514,269

Republic of Palau

Permanent Fund

September 30, 2021

The permanent fund is used to report resources that will legally restrict the Republic to the extent that income (earnings), and not principal will be used for purposes supporting the Republic's programs or for the benefit of the public.

Republic of Palau
 Permanent Funds
 Combining Balance Sheet
 September 30, 2021

	6000	3020	
	<u>Compact Section 211(f)</u>	<u>Infrastructure Maintenance</u>	<u>Total</u>
<u>ASSETS</u>			
Restricted assets:			
Investments	\$ <u>317,542,264</u>	\$ <u>5,843,214</u>	\$ <u>323,385,478</u>
Total assets	\$ <u><u>317,542,264</u></u>	\$ <u><u>5,843,214</u></u>	\$ <u><u>323,385,478</u></u>
<u>FUND BALANCES</u>			
Restricted	\$ <u>317,542,264</u>	\$ <u>5,843,214</u>	\$ <u>323,385,478</u>
Total fund balances	\$ <u><u>317,542,264</u></u>	\$ <u><u>5,843,214</u></u>	\$ <u><u>323,385,478</u></u>

Republic of Palau

Permanent Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended September 30, 2021

	6000	3020	
	<u>Compact Section 211(f)</u>	<u>Infrastructure Maintenance</u>	<u>Total</u>
Revenues:			
Net change in the fair value of investments	\$ 57,326,569	\$ 1,023,963	\$ 58,350,532
Other financing uses:			
Operating transfers out	(<u>15,000,000</u>)	---	(<u>15,000,000</u>)
Net change in fund balances	42,326,569	1,023,963	43,350,532
Fund balances at beginning of year	<u>275,215,695</u>	<u>4,819,251</u>	<u>280,034,946</u>
Fund balances at end of year	<u>\$ 317,542,264</u>	<u>\$ 5,843,214</u>	<u>\$ 323,385,478</u>

Republic of Palau

Nonmajor Governmental Funds - Special Revenue Funds

September 30, 2021

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

Republic of Palau

Nonmajor Governmental Funds - Special Revenue Funds

September 30, 2021

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 assist 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.

Republic of Palau

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2021

	1020	1040	1050	1060	1070	1200	1080	1090	1110	1120	1130	1210	Total
	Drug Fine Collection	Forfeited Property	Hospital Trust	Non-Commun- -icable Diseases	Publication and Law Access Unit	Sports Facilities Trust	Operator License	Fisheries Protection Trust	EQPB Mitigation Trust	Road Maintenance	Giant Clam Seed Sustainability Project	Palau Agricultural	Total
ASSETS													
Receivables, net:													
General	\$ ---	\$ ---	\$ 26,796	\$ ---	\$ ---	\$ ---	\$ ---	\$ 31,943	\$ (20)	\$ ---	\$ ---	\$ ---	\$ 58,719
Due from other funds	---	290,477	5,573,187	2,739,863	61,191	---	17,355	605,921	481,732	1,841,391	14,544	---	11,625,661
Investments	---	---	---	---	---	---	---	3,098,041	---	---	---	---	3,098,041
Prepaid items	---	2,600	18,542	---	---	---	---	---	---	70,260	---	---	91,402
Total assets	<u>\$ ---</u>	<u>\$ 293,077</u>	<u>\$ 5,618,525</u>	<u>\$ 2,739,863</u>	<u>\$ 61,191</u>	<u>\$ ---</u>	<u>\$ 17,355</u>	<u>\$ 3,735,905</u>	<u>\$ 481,712</u>	<u>\$ 1,911,651</u>	<u>\$ 14,544</u>	<u>\$ ---</u>	<u>\$ 14,873,823</u>
LIABILITIES AND FUND BALANCES													
(DEFICIT)													
Liabilities:													
Accounts payable	\$ ---	\$ 3,897	\$ 41,546	\$ ---	\$ 2,750	\$ ---	\$ 7,254	\$ (82,539)	\$ 2,864	\$ 30,568	\$ 552	\$ ---	\$ 6,892
Due to other funds	687	---	---	---	---	---	---	---	---	---	---	---	687
Accrued payroll and others	---	---	---	---	---	---	---	---	---	2,788	---	---	2,788
Total liabilities	<u>687</u>	<u>3,897</u>	<u>41,546</u>	<u>---</u>	<u>2,750</u>	<u>---</u>	<u>7,254</u>	<u>(82,539)</u>	<u>2,864</u>	<u>33,356</u>	<u>552</u>	<u>---</u>	<u>10,367</u>
Fund balances (deficit):													
Committed	---	289,180	5,576,979	2,739,863	58,441	---	10,101	3,818,444	478,848	1,878,295	13,992	---	14,864,143
Unassigned	(687)	---	---	---	---	---	---	---	---	---	---	---	(687)
Total fund balances (deficit)	<u>(687)</u>	<u>289,180</u>	<u>5,576,979</u>	<u>2,739,863</u>	<u>58,441</u>	<u>---</u>	<u>10,101</u>	<u>3,818,444</u>	<u>478,848</u>	<u>1,878,295</u>	<u>13,992</u>	<u>---</u>	<u>14,863,456</u>
Total liabilities and fund balances	<u>\$ ---</u>	<u>\$ 293,077</u>	<u>\$ 5,618,525</u>	<u>\$ 2,739,863</u>	<u>\$ 61,191</u>	<u>\$ ---</u>	<u>\$ 17,355</u>	<u>\$ 3,735,905</u>	<u>\$ 481,712</u>	<u>\$ 1,911,651</u>	<u>\$ 14,544</u>	<u>\$ ---</u>	<u>\$ 14,873,823</u>

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, 2021

	1020	1040	1050	1060	1070	1200	1080	1090	1110	1120	1130	1210	Total
	Drug Fine Collection	Forfeited Property	Hospital Trust	Non-Commun- -icable Diseases	Publication and Law Access Unit	Sports Facilities Trust	Operator License	Fisheries Protection Trust	EQPB Mitigation Trust	Road Maintenance	Giant Clam Seed Sustainability Project	Palau Agricultural	Total
Revenues:													
Taxes	\$ ---	\$ ---	\$ ---	\$ 1,134,171	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 782,650	\$ ---	\$ ---	\$ 1,916,821
Fees and charges	---	192,659	1,978,259	---	15,275	---	62,195	1,010	5,169	4	10,382	---	2,264,953
Net change in the fair value of investments	---	---	---	---	---	---	---	672,592	---	---	---	---	672,592
Licenses and permits	---	---	5,005	---	---	---	---	---	100	---	---	---	5,105
Total revenues	---	192,659	1,983,264	1,134,171	15,275	---	62,195	673,602	5,269	782,654	10,382	---	4,859,471
Expenditures:													
Current:													
Ministry of Finance	---	1,153	---	---	---	---	---	---	---	---	---	---	1,153
Ministry of State	---	---	---	---	25,283	---	---	---	---	---	---	---	25,283
Ministry of Justice	---	49,817	---	---	---	---	31,411	---	---	---	---	---	81,228
Ministry of Health	---	---	1,527,263	64,036	---	---	---	---	---	---	---	---	1,591,299
Ministry of Natural Resources, Environment and Tourism	---	---	---	---	---	---	---	---	39,200	---	3,649	---	42,849
Ministry of Public Infrastructure, Industry and Commerce	---	---	---	---	---	---	---	---	---	298,840	---	---	298,840
Payments to Component Units	---	---	---	46,400	---	---	---	---	---	---	---	---	46,400
Total expenditures	---	50,970	1,527,263	110,436	25,283	---	31,411	---	39,200	298,840	3,649	---	2,087,052
Excess (deficiency) of revenues over (under) expenditures	---	141,689	456,001	1,023,735	(10,008)	---	30,784	673,602	(33,931)	483,814	6,733	---	2,772,419
Other financing uses:													
Operating transfers in	---	---	1,221,228	---	---	---	---	---	---	---	---	---	1,221,228
Operating transfers out	---	---	---	(815,033)	---	(476)	(30,784)	---	---	(600,000)	---	(61,236)	(1,507,529)
Total other financing sources (uses), net	---	---	1,221,228	(815,033)	---	(476)	(30,784)	---	---	(600,000)	---	(61,236)	(286,301)
Net change in fund balances	---	141,689	1,677,229	208,702	(10,008)	(476)	---	673,602	(33,931)	(116,186)	6,733	(61,236)	2,486,118
Fund balances (deficit) at beginning 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
Fund balances (deficit) at end of year	\$ (687)	\$ 289,180	\$ 5,576,979	\$ 2,739,863	\$ 58,441	\$ ---	\$ 10,101	\$ 3,818,444	\$ 478,848	\$ 1,878,295	\$ 13,992	\$ ---	\$ 14,863,456

Republic of Palau

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

Year ended September 30, 2021

	Original	Final	Actual	Variance
Revenues:				
Local revenue	\$ 36,198,670	\$ 38,951,613	\$ 48,160,484	\$ 9,208,871
Net change in the fair value of investments	---	---	15,708	15,708
Total revenues	<u>36,198,670</u>	<u>38,951,613</u>	<u>48,176,192</u>	<u>9,224,579</u>
Expenditures - budgetary basis:				
Office of the President:				
President's Office	889,991	889,991	860,447	29,544
Official Expenses	33,362	33,362	26,347	7,015
Indirect Cost Recoveries	10,445	114,945	98,437	16,508
Administrative Overhead	1,570	35,291	31,278	4,013
Grants Coordinator Office	76,000	76,000	61,754	14,246
Council of Chiefs	151,003	151,003	120,751	30,252
Presidential Stipend	45,000	45,000	44,873	127
Total Office of the President	<u>1,207,371</u>	<u>1,345,592</u>	<u>1,243,887</u>	<u>101,705</u>
Office of the Vice-President:				
Vice-President's Office	379,573	379,573	365,640	13,933
National Emergency Management Office	261,257	261,257	240,015	21,242
Total Office of the Vice-President	<u>640,830</u>	<u>640,830</u>	<u>605,655</u>	<u>35,175</u>
Ministry of Finance:				
Office of the Minister	258,000	1,458,000	1,350,307	107,693
Administrative Overhead	1,186	57,893	49,397	8,496
Information System Support Service	241,326	241,326	231,197	10,129
Bureau of National Treasury	1,036,288	1,036,288	984,588	51,700
Bureau of Budget and Planning	731,283	731,283	723,930	7,353
Bureau of Public Service System	246,311	246,311	236,515	9,796
Workmen's Compensation	45,000	45,000	---	45,000
Bureau of Revenue and Taxation	701,262	701,262	649,843	51,419
Bureau of Customs	1,065,651	1,065,651	1,045,520	20,131
Total Ministry of Finance	<u>4,326,307</u>	<u>5,583,014</u>	<u>5,271,297</u>	<u>311,717</u>
Ministry of State:				
Office of the Minister	18,000	18,000	17,841	159
Consulate Office in Guam	129,000	129,000	122,055	6,945
Consulate Office in Saipan	50,000	50,000	21,266	28,734
Embassy in Washington D.C.	325,000	325,000	273,974	51,026
Embassy in Tokyo, Japan	738,000	738,000	644,957	93,043
Embassy in Taipei, Taiwan	200,000	200,000	181,956	18,044
Embassy in Manila, Philippines	151,000	151,000	139,704	11,296
United Nations Representative Office	289,000	289,000	281,904	7,096
Office of the Public Defender	363,800	363,800	322,335	41,465
Bureau of Trade and Foreign Affairs	471,048	471,048	424,162	46,886
Bureau of Domestic Affairs	426,000	426,000	340,902	85,098
Bureau of Archives and Research	138,000	138,000	115,133	22,867
Passport Office	114,073	114,073	66,603	47,470
International Organizations Obligations	311,000	311,000	310,225	775
Southwest Islands Field Trips	310,000	310,000	310,000	---
ROP Embassy for European Union/Climate Change	100,000	100,000	98,396	1,604
ROP Embassy in Suva, Fiji	50,000	50,000	48,488	1,512
ROP Consulate Office Hawaii	65,000	65,000	58,580	6,420
Total Ministry of State	<u>4,248,921</u>	<u>4,248,921</u>	<u>3,778,481</u>	<u>470,440</u>
Ministry of Community and Cultural Affairs:				
Office of the Minister	58,000	58,000	39,314	18,686
Bureau of Youth, Applied Arts and Career	373,089	373,089	256,127	116,962
Bureau of Cultural and Historical Preservation	198,555	198,555	153,337	45,218
Olchotel Belau Fair	30,000	30,000	30,000	---
Total Ministry of Community and Cultural Affairs	<u>659,644</u>	<u>659,644</u>	<u>478,778</u>	<u>180,866</u>

Republic of Palau

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

Year ended September 30, 2021

	Original	Final	Actual	Variance
Ministry of Education:				
Office of the Minister	58,000	58,000	41,795	16,205
School Books, Supplies and Instructional Equipment	364,104	364,104	199,335	164,769
Bureau of Curriculum and Instruction	514,520	514,520	469,679	44,841
Bureau of School Administration	7,366,048	7,366,048	7,033,515	332,533
Food Services Program	849,091	849,091	836,786	12,305
Total Ministry of Education	9,151,763	9,151,763	8,581,110	570,653
Ministry of Public Infrastructure, Industry and Commerce:				
Office of the Minister	58,000	58,000	55,306	2,694
FAA, UNDP, & Other Match	354,000	354,000	---	354,000
Sports Facilities Maintenance and Utilities	94,000	94,000	90,890	3,110
Bureau of Commercial Development	77,000	77,000	68,728	8,272
Bureau of Communication	150,034	150,034	136,678	13,356
Bureau of Marine Transportation	269,000	269,000	249,782	19,218
Palau Small Business Development (UOG)	55,000	55,000	55,000	---
Bureau of Aviation	2,177,850	2,177,850	2,163,853	13,997
Bureau of Lands and Survey	902,802	902,802	824,244	78,558
Bureau of Public Works	1,409,475	1,409,475	1,358,409	51,066
Palau Energy Administration	151,970	151,970	127,808	24,162
National Capitol Electricity/Maintenance	1,450,007	1,450,007	1,295,192	154,815
Capital Improvement Office Operations	155,668	155,668	103,442	52,226
Total Ministry of Public Infrastructure, Industry and Commerce	7,304,806	7,304,806	6,529,332	775,474
Ministry of Justice:				
Office of the Minister	58,000	58,000	---	58,000
Office of the Attorney General	714,258	714,258	551,805	162,453
Bureau of Immigration & Labor	1,103,160	1,103,160	979,304	123,856
Bureau of Public Safety	3,612,544	3,612,544	3,465,333	147,211
Bureau of Maritime Security & FWP	1,207,573	1,207,573	1,146,854	60,719
National Drug Task Force	370,025	370,025	348,706	21,319
Anti Human Trafficking Task Force	100,874	100,874	66,260	34,614
Juvenile Justice Program	25,000	25,000	24,161	839
Total Ministry of Justice	7,191,434	7,191,434	6,582,423	609,011
Ministry of Health:				
Office of the Minister	58,000	58,000	17,769	40,231
Palau Severely Disabled Assistance Fund	498,000	498,000	490,150	7,850
Bureau of Aging, Gender and Disability	377,000	377,000	228,833	148,167
Bureau of Public Health	1,366,451	1,366,451	1,228,141	138,310
Health Administration	3,655,447	3,655,447	2,981,972	673,475
Manila Medical Referral	210,000	210,000	43,031	166,969
Hawaii Medical Referral	150,000	150,000	127,991	22,009
Taipei Medical Referral	150,000	150,000	128,568	21,432
Medical Supplies and Drugs	364,272	364,272	181,175	183,097
Hemodialysis	540,611	681,211	603,174	78,037
Hyperbaric Chamber	100,000	100,000	44,994	55,006
Bureau of Clinical Service	1,992,400	1,992,400	1,687,157	305,243
Bureau of Nursing	2,414,000	2,414,000	2,407,822	6,178
Total Ministry of Health	11,876,181	12,016,781	10,170,777	1,846,004
Ministry of Natural Resources, Environment and Tourism:				
Office of the Minister	58,000	58,000	39,201	18,799
Bureau of Marine Resources	623,360	623,360	529,870	93,490
Bureau of Agriculture	723,729	723,729	718,674	5,055
Bureau of Tourism	258,717	258,717	124,724	133,993
Total Ministry of Natural Resources, Environment and Tourism	1,663,806	1,663,806	1,412,469	251,337
Total Executive Branch	48,271,063	49,806,591	44,654,209	5,152,382

Republic of Palau

Schedule of Revenues, Expenditures, and Changes in Fund Balance, Continued

Budget and Actual - General Fund (Fund 1000)

Year ended September 30, 2021

	Original	Final	Actual	Variance
Judicial Branch:				
Judiciary	3,192,000	3,192,000	3,133,147	58,853
Total Judicial Branch	3,192,000	3,192,000	3,133,147	58,853
Olbiil Era Kelulau:				
Senate	2,315,527	2,315,527	2,199,636	115,891
Senate Legal Counsel Office	215,000	215,000	171,483	43,517
House of Delegates	2,853,042	2,853,042	2,750,238	102,804
House Legal Counsel Office	216,207	216,207	211,953	4,254
Joint Staff	346,152	343,152	339,136	4,016
Association of Pacific Island Legislatures	15,000	15,000	10,000	5,000
Inter-Parliamentary Union	15,000	15,000	11,876	3,124
Palau Japan Parliamentary Friendship	35,000	35,000	---	35,000
Electricity for Koror Olbiil Era Kelulau Building	30,321	30,321	21,790	8,531
OEK Koror Office Renovation	---	3,000	3,000	---
Pacific Islands Development Bank	10,000	10,000	---	10,000
Total Legislative Branch	6,051,249	6,051,249	5,719,112	332,137
Boards, Commissions and Authorities:				
Foreign Investment Board	217,000	217,000	168,374	48,626
Palau Election Commission	430,174	430,174	265,799	164,375
COFA Board of Trustees	50,297	50,297	6,070	44,227
Palau Code Commission	59,000	59,000	35,087	23,913
Palau Public Lands Authority	135,000	135,000	132,137	2,863
Parole Board	34,000	34,000	26,452	7,548
Palau Housing Authority	150,000	150,000	150,000	---
Ethics Commission	51,000	51,000	34,879	16,121
Financial Institutions Commission	37,000	37,000	36,518	482
Financial Investigation Unit	178,800	178,800	113,230	65,570
Language Commission	54,000	54,000	20,409	33,591
Total Boards, Commissions and Authorities	1,396,271	1,396,271	988,955	407,316
State Block Grants	8,456,000	8,456,000	8,455,900	100
Independent Agencies:				
Office of the Public Auditor	616,962	616,962	444,525	172,437
Office of the Special Prosecutor	305,000	305,000	279,178	25,822
Palau Environmental Quality Protection Board	454,237	454,237	413,587	40,650
National Postal Service	445,091	445,091	390,009	55,082
Palau Visitors Authority	1,426,000	1,426,000	1,426,000	---
National Aviation Administration	186,130	186,130	185,292	838
Total Independent Agencies	3,433,420	3,433,420	3,138,591	294,829
Other Agencies and Activities:				
Palau National Museum	260,000	260,000	200,428	59,572
Micronesia Legal Services	125,000	125,000	125,000	---
Palau Community Action Agency	304,000	304,000	304,000	---
Apprentice Program	50,000	50,000	50,000	---
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	90,790	3,210
Civic Action Team Share	250,000	250,000	250,000	---
PNOC and Sports Organizations	177,000	177,000	171,618	5,382
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	---
Total Other Agencies and Activities	1,806,000	1,806,000	1,732,836	73,164

Republic of Palau

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

Year ended September 30, 2021

	Original	Final	Actual	Variance
Education Assistance:				
Palau Community College Operations	2,338,000	2,338,000	2,338,000	---
PCC Board of Trustees	38,000	38,000	38,000	---
PCC CRE	35,000	35,000	35,000	---
COM Board of Regents	25,000	25,000	25,000	---
PCC Endowment Fund	75,000	75,000	75,000	---
Tuition Assistance to Palauan Students	60,000	60,000	60,000	---
PCC Navigation Program	50,000	50,000	50,000	---
Aid to Non-Public Schools	947,000	947,000	947,000	---
Total Education Assistance	3,568,000	3,568,000	3,568,000	---
Other Appropriations:				
2021 Inauguration Ceremony	---	100,000	94,143	5,857
Cross Act	9,500,000	11,000,000	9,705,610	1,294,390
2021 Belau Games	---	340,000	---	340,000
CSPP	2,600,000	2,600,000	2,600,000	---
2021 Mechesil Belau	75,000	75,000	75,000	---
Angaur Sea Transportation	30,000	30,000	30,000	---
Kayangel Sea Transportation	30,000	30,000	30,000	---
Peleliu Maritime Authority	30,000	30,000	30,000	---
Debt Service Fund	---	2,458,015	2,458,015	---
Total Other Appropriations	12,265,000	16,663,015	15,022,768	1,640,247
Total expenditures	88,439,003	94,372,546	86,413,518	7,959,028
Deficiency of revenues under expenditures	(52,240,333)	(55,420,933)	(38,237,326)	17,183,607
Other financing sources (uses):				
Loan proceeds	13,329,969	14,829,969	8,694,564	(6,135,405)
Operating transfers in:				
Compact Section 211(f) Trust Fund	15,000,000	15,000,000	15,000,000	---
Grants Fund	---	1,200,000	1,292,504	92,504
Debt Service Fund	25,000,000	25,000,000	24,829,969	(170,031)
PAN Fund	45,000	45,000	---	(45,000)
Non Lapsing Fund	962,000	962,000	229,318	(732,682)
Noncommunicable Diseases Fund	---	480,600	815,033	334,433
Sports Facilities Trust Fund	---	---	476	476
Reserve Fund	---	---	25,000	25,000
Operator License Fund	---	---	30,784	30,784
Palau Agricultural Fund	---	---	61,236	61,236
Total other financing sources	54,336,969	57,517,569	50,978,884	(6,538,685)
Operating transfers out:				
National Scholarship Fund	(2,003,000)	(2,003,000)	(2,000,003)	2,997
Debt Service Fund	(2,949,448)	(2,949,448)	(2,282,723)	666,725
Nonlapsing Fund	(4,908,950)	(4,908,950)	(4,908,950)	---
Reserve Fund	(724,000)	(724,000)	(5,000,000)	(4,276,000)
Total other financing uses	(10,585,398)	(10,585,398)	(14,191,676)	(3,606,278)
Total other financing sources (uses), net	43,751,571	46,932,171	36,787,208	(10,144,963)
	(8,488,762)	(8,488,762)	(1,450,118)	7,038,644
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	337,003	337,003	438,863	101,860
Net change in fund balance	\$ (8,151,759)	\$ (8,151,759)	\$ (1,011,255)	\$ 7,140,504