

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

Republic of Palau

*Year ended September 30, 2022
with Report of Independent Auditors*



**Shape the future
with confidence**

Republic of Palau

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

Year ended September 30, 2022

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Republic of Palau

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

Year ended September 30, 2022

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Report of Independent Auditors

His Excellency Surangel S. Whipps, Jr.
President
Republic of Palau

Report on the Audit of the Financial Statements

Qualified and Unmodified Opinions

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau (the Republic), as of and for the year ended September 30, 2022, 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 (collectively referred to as the "financial statements").

We did not audit the financial statements of the Palau Community College, the Palau Housing Authority, the Palau International Coral Reef Center, the Palau National Communications Corporation and the Belau Submarine Cable Corporation, which represent 39% of the assets and 41% of the program revenues of the Republic's aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the reports of the other auditors.

Summary of Opinions

<i>Opinion Unit</i>	<i>Type of Opinion</i>
Governmental Activities	Qualified
Aggregate Discretely Presented Component Units	Unmodified
General Fund	Unmodified
Grants Fund	Unmodified
Permanent Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Qualified Opinion on Governmental Activities

In our opinion, except for the effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Republic as of September 30, 2022, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on the Aggregate Discretely Presented Component Units, General Fund, Grants Fund, Permanent Fund, and the Aggregate Remaining Fund Information

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 aggregate discretely presented component units, General Fund, Grants Fund, Permanent Fund, and the aggregate remaining fund information of the Republic as of September 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified and Unmodified Opinions

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* (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Republic and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matter Giving Rise to Qualified Opinion on the Governmental Activities

Accounting principles generally accepted in the United States of America require that the entity adopt the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the fiscal year ended September 30, 2022. This Statement requires lessees to recognize lease assets and lease liabilities for leases that were previously classified as operating leases and to disclose key information about leasing arrangements.

As described in Note 1 to the financial statements, the Republic has not implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, as of the end of the reporting period. As a result, assets, liabilities, and lease-related disclosures related to lease arrangements have not been recorded or presented in accordance with generally accepted accounting principles. The amount by which this departure would affect the assets, liabilities, net position, and related revenues and expenses of the governmental activities financial statements has not been determined.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Republic's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Republic's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Republic's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 21 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget v Actual - General Fund and notes thereto, on pages 101 and 102, the Schedule of the Proportionate Share of the Net Pension Liability, on page 103, and the Schedule of Pension Contributions, on page 104, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information, in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information, comparing the information for consistency with management's responses to our inquiries of 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 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 auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

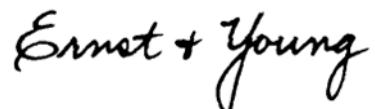
Other Information

Management is responsible for the other information included in the financial statements. The other information as set forth in Section VI of the foregoing table of contents does not include the financial statements and our auditor's report thereon. Our opinions on the 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 financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the 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 October 2, 2025 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.

October 2, 2025

Republic of Palau

Management's Discussion and Analysis

Year ended September 30, 2022

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, 2022. We encourage readers to consider the information presented here in conjunction with the Republic's basic financial statements, which follow this section. Fiscal year 2021 comparative information has been included, where appropriate.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of the Republic exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$179.1 million (net position), decreasing by \$86.4 million (or 33%) from prior year net position of \$265.5 million. Of this amount, \$135.4 million represents the Republic's investment in capital assets; \$275.2 million represents amounts restricted for various purposes, with the remaining deficiency of \$231.5 million to be funded from future governmental activities.

During the current fiscal year, the Republic's expenses for governmental activities were \$163.5 million and were funded, in part, by \$91.3 million in program revenues and \$43.1 million in taxes and other general revenues. Program revenues increased by \$12.7 million (or 16%) from \$78.6 million in the prior year to \$91.3 million, which was attributable primarily to the increase in grants and contributions. Taxes and other general revenues increased by \$0.8 million (or 2%) from \$42.3 million in the prior year to \$43.1 million, which was attributable primarily to the increase in tax receipts of \$2.7 million partially offset by the decrease in other receipts of \$1.9 million. Expenses decreased by \$6.9 million (or 4%) from \$170.4 million in the prior year to \$163.5 million, which was attributable primarily to the decrease in transportation and commerce and general government expenses partially offset by the increase in SOE and State Government appropriations.

The Compact Section 211(f) Trust Fund experienced a decrease in fair value of investments of \$57.3 million in the current fiscal year before an appropriation of \$15 million representing the transfer out to the General Fund as budgetary support, decreasing the Republic's trust fund balance by \$72.3 million (or 22%) to \$251.1 million from \$323.4 million in the prior year.

For the current fiscal year, General Fund expenditures of \$94.9 million exceeded General Fund revenues (and other financing sources) of \$86.4 million by \$8.5 million. General Fund appropriations decreased by \$8.8 million (or 9%) compared with the prior year primarily due to a \$18.8 million reduction in payments to component units offset by a \$5.2 million increase in Ministry of Finance appropriations. General Fund revenues (and other financing sources) decreased by \$17.7 million (or 17%) compared with the prior year primarily due to a \$22.8 million reduction in Asian Development Bank loan proceeds received in 2022 compared to 2021.

Republic of Palau

Management's Discussion and Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Republic's finances, in a manner like 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 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.

Republic of Palau

Management's Discussion and Analysis, continued

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 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 soon to finance the Republic's programs.

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

Republic of Palau

Management's Discussion and Analysis, continued

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 comprise 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 \$179.1 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. Most 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 \$79.5 million while its current liabilities were \$26.3 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 2022	Governmental Activities 2021	Total \$ Change 2022-2021	Total % Change 2022-2021
Current and other assets	\$ 402,095,573	\$ 480,048,231	\$ (77,952,658)	(16)%
Capital assets	138,773,572	133,355,589	5,417,983	4%
Total assets	540,869,145	613,403,820	(72,534,675)	(12)%
Deferred outflows of resources	50,347,647	64,278,770	(13,931,123)	(22)%
Long-term debt outstanding	150,798,805	145,397,762	5,401,043	4%
Current and other liabilities	210,174,897	237,474,380	(27,299,483)	(11)%
Total liabilities	360,973,702	382,872,142	(21,898,440)	(6)%
Deferred inflows of resources	51,102,427	29,280,499	21,821,928	75%
Net position:				
Net investment in capital assets	135,400,674	131,755,551	3,645,123	3%
Restricted	275,198,888	345,899,868	(70,700,980)	(20)%
Unrestricted	(231,458,899)	(212,125,470)	(19,333,429)	9%
Total net position	\$ 179,140,663	\$ 265,529,949	\$ (86,389,286)	(33)%

At the end of the current fiscal year, the Republic's unrestricted net position deficiency was \$231.5 million, an increase from the prior year amount by \$192 million (or 9%). 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 decreased by \$86.4 million, representing a decrease of 33% from the prior year's amount of \$265.5 million. This result indicates that the Republic's financial condition declined from the prior year, mainly due to the decrease in the fair value of the Compact Trust Fund. Although local revenues incrementally increased, the government increased subsidies to SOEs and State Governments to boost the economy.

Republic of Palau

Management's Discussion and Analysis, continued

Changes in Net Position, continued

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

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

	Governmental Activities 2022	Governmental Activities 2021	Total \$ Change 2022-2021	Total % Change 2022-2021
Revenues:				
Program revenues:				
Charges for services	\$ 18,775,482	\$ 16,625,512	\$ 2,149,970	13%
Operating grants and contributions	48,958,711	42,523,495	6,435,216	15%
Capital grants and contributions	23,558,992	19,482,014	4,076,978	21%
	<u>91,293,185</u>	<u>78,631,021</u>	<u>12,662,164</u>	16%
General revenues:				
Taxes	41,338,748	38,615,167	2,723,581	7%
Other general revenues	1,767,602	3,679,311	(1,911,709)	(52)%
	<u>43,106,350</u>	<u>42,294,478</u>	<u>811,872</u>	2%
Total revenues	<u>134,399,535</u>	<u>120,925,499</u>	<u>13,474,036</u>	11%
Expenses:				
General government	69,695,170	72,845,371	(3,150,201)	(4)%
Education	19,461,581	19,539,997	(78,416)	(0)%
Health and welfare	29,014,930	28,442,523	572,407	2%
Public safety	9,904,697	11,837,523	(1,932,826)	(16)%
Cultural affairs and recreation	1,906,844	1,154,664	752,180	65%
Transportation and commerce	15,231,899	22,863,926	(7,632,027)	(33)%
State government appropriations	15,690,424	11,930,468	3,759,956	32%
Depreciation - unallocated	949,409	949,409	-	0%
Interest	1,616,756	828,807	787,949	95%
Total expenses	<u>163,471,710</u>	<u>170,392,688</u>	<u>(6,920,978)</u>	(4)%
	<u>(29,072,175)</u>	<u>(49,467,189)</u>	<u>20,395,014</u>	(41)%
Contributions to permanent funds	(57,317,111)	58,350,532	(115,667,643)	(198)%
Change in net position	<u>(86,389,286)</u>	<u>8,883,343</u>	<u>(95,272,629)</u>	1072%
Net position, beginning of year	<u>265,529,949</u>	<u>256,646,606</u>	<u>8,883,343</u>	3%
Net position, end of year	<u>\$ 179,140,663</u>	<u>\$ 265,529,949</u>	<u>\$ (86,389,286)</u>	(33)%

Republic of Palau

Management's Discussion and Analysis, continued

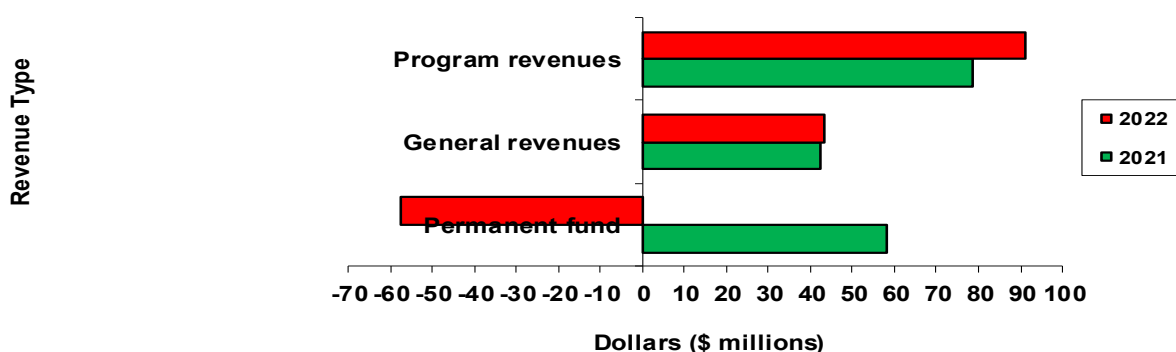
Changes in Net Position, continued

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

- Total revenues increased by \$13.5 million (or 11%) compared with the previous year. Program revenues increased by \$12.7 million (or 16%) as compared with the previous year while general revenues increased by \$0.8 million (or 2%) as compared with the previous year. The increase in program revenues reflects a \$6.4 million (or 15%) increase in operating grants and contributions, a \$4.1 million (or 21%) increase in capital grants and contributions, and a \$2.1 million (or 13%) increase 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, the cost of governmental activities moderately decreased in the current year by \$6.9 million (or 4%) as compared with the prior year, which was attributable primarily to a decrease in overall other operational costs.
- The Compact Section 211(f) Trust Fund contributions of \$58.4 million in the prior year decreased by \$115.7 million in the current year because of the global economic downturn impacting the market value of the trust fund investments.

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

Graph 1
The Republic's Revenues
For the Years Ended September 30



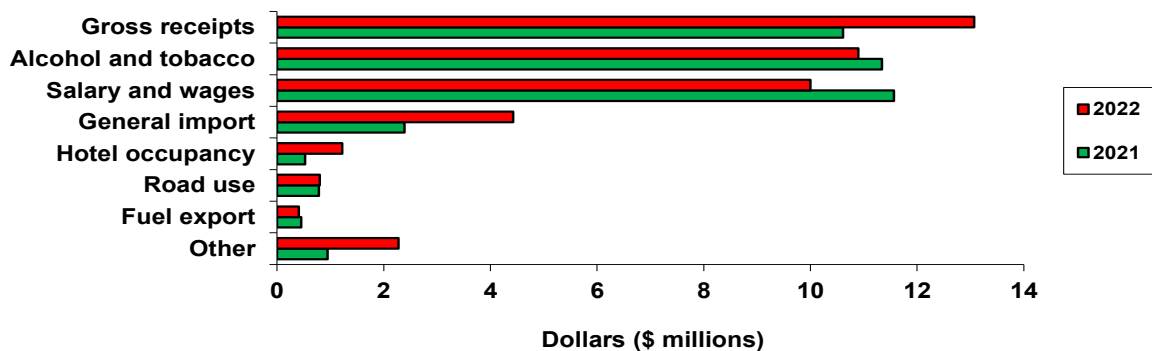
Republic of Palau

Management's Discussion and Analysis, continued

Changes in Net Position, continued

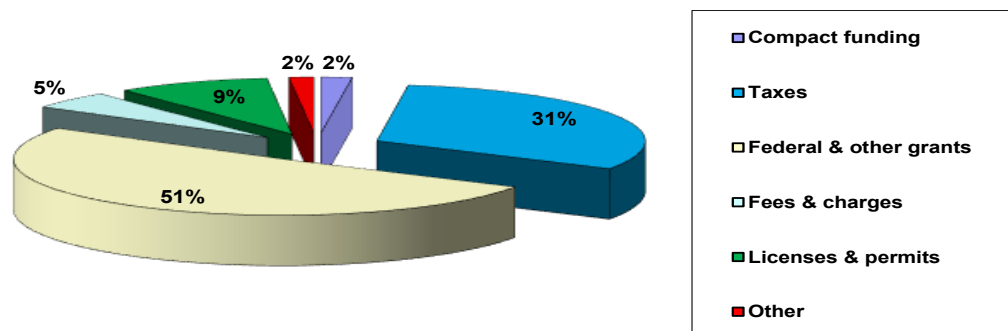
A significant portion of the Republic's general revenues involves tax revenue collections. At \$41.3 million in the current year, tax revenues were higher than the \$38.6 million collected in the prior year. A graphic summary of the Republic's tax revenue collections for the current year compared with the prior year follows:

Graph 2
The Republic's Tax Revenues
For the Years Ended September 30



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, 2022

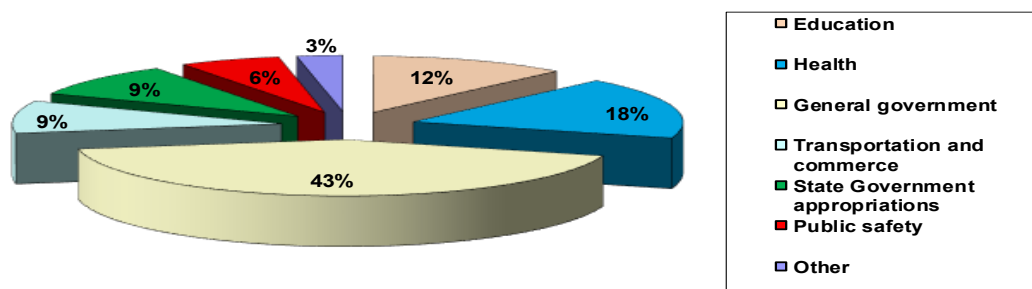


Republic of Palau

Management's Discussion and Analysis, continued

Changes in Net Position, continued

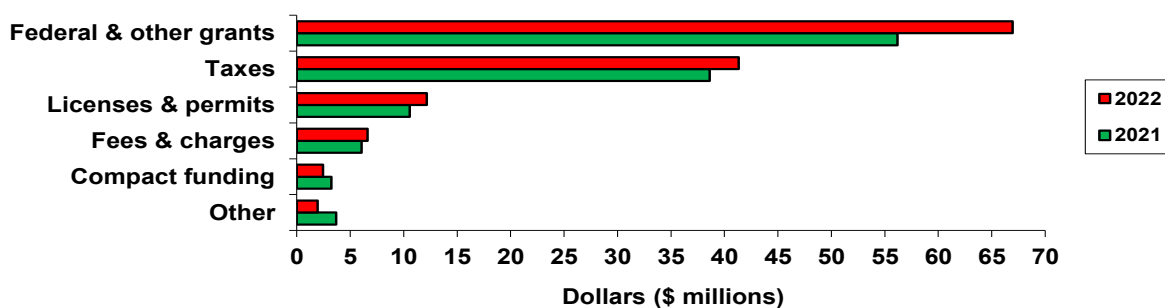
Graph 4
The Republic's Cost of Governmental Activities
For the Year Ended September 30, 2022



Compact funding, local taxes and Federal and other grants are the major sources of revenue for the Republic, which comprise 84% of total revenues for the current year. The remaining 16% is primarily comprised of various fees and service charges. Other expenses that make up a portion of the costs of governmental activities include cultural affairs and recreation (\$1.9 million), unallocated depreciation expense (\$0.9 million), and interest expense (\$1.6 million).

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2022 and 2021.

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



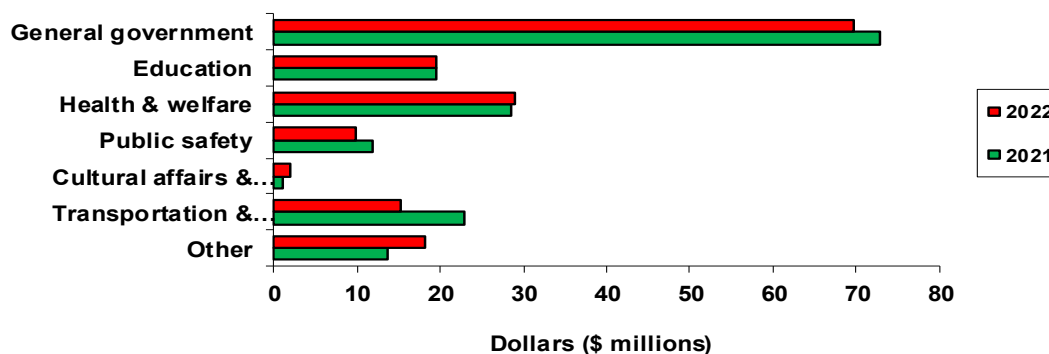
As previously discussed, total revenues increased by \$13.5 million (or 11%) compared with the previous year due primarily to an increase in program revenues of \$12.7 million (or 16%) compared with the previous year.

Republic of Palau

Management's Discussion and Analysis, continued

Changes in Net Position, continued

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 \$15.7 million, which increased by \$3.8 million from the prior year. Overall cost of governmental activities decreased by \$6.9 million (or 4%) compared to the prior fiscal year.

FINANCIAL ANALYSIS OF THE REPUBLIC'S FUNDS

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

Governmental Funds

The focus of the Republic's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Republic's financing requirements. 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 \$377.7 million, which represents a decrease of \$79.1 million (or 17%) in comparison with the prior year. Of this total combined fund balance, \$318.3 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, \$13 million is designated as restricted and is constrained for specific purposes which are externally imposed, and \$24.8 million is designated as committed and is constrained for specific purposes which are internally imposed. The combined unassigned fund balance of the Republic's governmental funds is \$21.4 million.

Republic of Palau

Management's Discussion and Analysis, continued

Governmental Funds, continued

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 \$21.4 million. Total fund balance was \$102.5 million compared with a total fund balance of \$111 million at the end of the prior fiscal year.

The Compact Section 211(f) Trust Fund has a total fund balance of \$251.1 million, all of which is restricted for the funding of future operations of the primary government. The net decrease in fund balance during the current year in the Compact Section 211(f) Trust Fund was \$72.3 million (or 22%), which reflects a net decrease in the value of trust fund investments of \$57.3 million and a transfer of \$15 million to the Republic's General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, budget revisions of \$12.4 million were made by management and elected officials of the Republic to the General Fund budget. Revenues collected (including other financing sources) of \$79.7 million were lower than budgeted amounts of \$94 million. In addition, charges to appropriations (including other financing uses) of \$90.1 million were lower than budgeted amounts of \$94.5 million due primarily to expenditures associated with the executive branch and other appropriations of \$48.8 million and \$31.2 million, respectively, which were lower than budgeted amounts of \$52.7 million and \$32.4 million, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Republic's investment in capital assets for its governmental activities as of September 30, 2022, amounted to \$534 million (including \$28.8 million of land and construction in progress), net of accumulated depreciation of \$395.2 million, leaving a net book value of \$138.8 million. This represents an increase of \$5.4 million from the amount of \$133.4 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 the previous year.

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

	Governmental Activities 2022	Governmental Activities 2021	Total \$ Change 2022-2021	Total % Change 2022-2021
Buildings and other improvements	\$ 57,553,001	\$ 62,609,434	\$ (5,056,433)	(8)%
Machinery and equipment	31,271,887	32,467,544	(1,195,657)	(4)%
Vehicles	1,918,661	1,529,873	388,788	25%
Infrastructure	19,239,470	19,897,755	(658,285)	(3)%
Land	3,899,403	3,899,403	-	0%
Construction in progress	24,891,150	12,951,580	11,939,570	92%
Total	\$ 138,773,572	\$ 133,355,589	\$ 5,417,983	4%

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	\$ 0.55	\$ 3.33
One Stop Shop (Phase 1)	\$ 2.80	\$ 6.25
Angaur Dock Project (COFA)	\$ 0.05	\$ 2.33
Airport Runway Drainage Project	\$ 3.88	\$ 7.28
CIP Office	\$ 0.07	\$ 0.26
Weather Monitoring System	\$ 0.05	\$ 0.21
Belau National Hospital MRI Building	\$ 0.34	\$ 0.34
Airport Seal Pavement Surface Project	\$ 1.09	\$ 1.09
UN Office Building	\$ 3.83	\$ 3.83

- Completion of the following infrastructure projects:

Aimeliik-COFA Road	\$ 0.44	\$ 0.44
Aimeliik-Mongami Road	\$ 0.51	\$ 0.51
Aimeliik-Nekken Road	\$ 0.32	\$ 0.32
Airai-Oikull Road	\$ 0.24	\$ 0.24
Melekeok Road	\$ 0.25	\$ 0.25

Republic of Palau

Management's Discussion and Analysis, continued

Capital Assets, continued

Ngaraard Road	\$ 0.28	\$ 0.28
Ngatpang Road	\$ 0.92	\$ 0.92
Ngchesar Road	\$ 0.74	\$ 0.74
Ngiwal Road	\$ 0.61	\$ 0.61

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

Long-term Debt

The Republic has executed 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 the previous year.

The Republic's Outstanding Debt September 30,

	Governmental Activities 2022	Governmental Activities 2021	Total \$ Change 2022-2021	Total % Change 2022-2021
Asian Development Bank:				
Water Sector Improvement # 1	\$ 5,283,731	\$ 6,490,389	\$ (1,206,658)	(19)%
Water Sector Improvement # 2	2,222,818	2,556,775	(333,957)	(13)%
Koror-Airai Sanitation Project # 1	20,752,000	20,859,790	(107,790)	(1)%
Koror-Airai Sanitation Project # 2	1,502,664	1,641,378	(138,714)	(8)%
North Pacific Regional Connectivity Investment # 1	13,768,751	13,746,895	21,856	0%
North Pacific Regional Connectivity Investment # 2	6,467,370	7,073,924	(606,554)	(9)%
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	-	0%
Recovery through Improved Systems Support # 1	5,000,000	5,000,000	-	0%
Recovery through Improved Systems Support # 2	20,000,000	20,000,000	-	0%
Palau Public Utilities Corporation Reform # 2	5,000,000	-	5,000,000	
Mega International Commercial Bank:				
Palau International Airport Repaving Project	1,142,897	1,600,038	(457,141)	(29)%
Agriculture and Aquaculture Development Project	3,857,143	4,142,858	(285,715)	(7)%
Housing Project	4,000,001	4,285,715	(285,714)	(7)%
Housing Loan	14,571,430	15,000,000	(428,570)	(3)%
Mortgage Note:				
UN Mission Office loan	2,230,000	-	2,230,000	
International Cooperation Development Fund:				
Women and Youth Entrepreneurs	5,000,000	3,000,000	2,000,000	67%
Total	\$ 150,798,805	\$ 145,397,762	\$ 5,401,043	4%

Republic of Palau

Management's Discussion and Analysis, continued

Long-term Debt, continued

As mentioned above, total long-term debt increased by \$5.4 million (or 4%) during the current year, which represents long-term debt additions of \$10.9 million offset by declining principal balances associated with ADB debt service payments of \$4.1 million and MICB debt service payments of \$1.4 million. The long-term debt additions during the current year included ADB debt associated with the Palau Public Utilities Corporation reform loan in the original amount of \$5 million, the International Cooperation Development Fund loan associated with the Women and Youth Entrepreneurs project in the original amount of \$2 million, and the mortgage note payable in the amount of \$2.2 million associated with the UN Mission Office building purchase. 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

With tourism representing a significant part of Palau's small open economy, the collapse of global travel and the closure of domestic borders led to the economy experiencing a decline of 0.6% in 2020, 11.9% in 2021, with a further, but more modest contraction of 0.5% in 2022, despite the positive support of the mitigation programs: The CROSS and US CARES Acts. In 2022, tourist arrivals increased threefold to 9,247 from the all-time low of 3,400 experienced in 2021, yet still around 5% of numbers experienced in the peak tourism years of 2015 and 10% of pre-COVID levels seen in 2019, despite the Taiwan flight "bubble" created in April 2021. Palau's reliance on tourism creates important challenges as tourism is highly susceptible to global economic and financial conditions and even in the period before the pandemic the country experienced 7 years of negative growth between FY2000-FY2019. However, with nearly 100% of the population vaccinated along with the economic impact mitigation measures in place, this placed Palau in a good position to recover in the medium term.

The private sector experienced most of the brunt of the pandemic, whereas the public sector remained largely unchanged thanks to donor financing to maintain basic services and the COVID mitigation programs, the CROSS and CARES Acts, which were extended throughout 2021. For the CROSS Act, a total of \$20 million was appropriated for several mitigation programs including: an unemployment program for all those who lost their jobs, a temporary jobs program for a limited number of individuals, relief to the private sector through a loan program disbursed by the National Development Bank of Palau, and a lifeline utility service program for low-income households. The ADB provided critical loan-financed funding to support government operations and the cost of the CROSS Act. The US CARES Act benefited Palau for certain unemployment benefits under two US funded facilities: the Pandemic Unemployment Assistance (PUA), and the Federal Pandemic Unemployment Compensation (FPUC). Mitigation programs had large beneficial impacts on household incomes and jobs. Early projections of job losses turned out to be less dire than the original estimates. Initial projections of the impact of the pandemic on employment suggested that a total job loss of up to 3,100 could be anticipated or 27% of the labor force. However, final employment data for 2022 indicated that 1,700 jobs were lost or 15% of the 2019 level.

Republic of Palau

Management's Discussion and Analysis, continued

Despite the contractions in Palau's economy, in 2022 Palau's GNI per capita was \$14,538, which is above the World Bank's threshold for high income country status. This level of GNI per capita has important implications for the eligibility of Palau for grant assistance from both multilateral and bilateral donors. Alternative financing through loans were taken out during this period to support government operations, and coupled with the contraction in the economy, resulted in an external debt to GDP ratio of 70.1% in 2021 which remained largely unchanged in 2022 at 69.1%. This ratio is expected to further improve as the economy recovers.

Inflation in Palau has historically been low, however, in 2022, Palau saw record high inflation of 13.2%. Palau's high reliance on imports makes domestic prices susceptible to global shocks: global commodity prices, transportation costs and supply bottlenecks. The rapid rise in prices in 2022 was due to rebounds in global oil prices following their crash in 2020 and ongoing global supply chain disruptions.

Total financing needs of 23% of GDP have been required to support the fiscal deficit in 2020 and 2021 during the COVID-19 crisis. Palau has generally run a conservative fiscal policy and maintained fiscal balance. By the end 2018, government deposits had risen to \$43 million, up from a level of \$9 million five years earlier. Overall revenues in 2022 were around 17% higher than the pre-pandemic levels of 2019 despite a fall in tax revenues due to a change in composition of revenues due to increases in grants. Tax revenues increased around 7% from 2021 but were around 17% lower in 2022 compared with 2019. 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. Tax collections related to tourism experienced modest improvements compared to 2022 but still significantly below pre-Covid levels. Hotel room occupancy tax fell from \$3.6 million in 2019 to \$1.2 million in 2022. Other taxes largely relating to entry fees paid by travelers entering Palau (PPEF - Pristine Paradise Environmental Fee) fell from \$3.7 million to \$1.1 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.

The 2020 and 2021 Budget ceilings were higher compared with 2019 in response to the COVID-19 global pandemic, the government was 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. However, the 2022 Budget ceiling was lower than the pre-pandemic levels as the government aimed to make savings to mitigate the worsening fiscal position. The 2023 Budget is 16% higher than 2022 but still slightly lower than the 2020 and 2021 Budgets.

Republic of Palau

Management's Discussion and Analysis, continued

As flights slowly reopen and the economy slowly recovers, the longer-term economic growth will be targeted through implementation of the high value tourism strategy. Previously, it was anticipated that the tourism industry would fully recover in 2025; however, this has been slower than expected. 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 2023 has had 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, 2022

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 43,163,200	\$ 32,975,450
Investments	12,141,967	5,104,262
Receivables, net of allowance for uncollectibles	20,532,824	14,239,585
Inventories	---	13,226,400
Due from component units	3,112,624	---
Other current assets	564,481	2,301,062
Total current assets	<u>79,515,096</u>	<u>67,846,759</u>
Noncurrent assets:		
Investments	---	1,977,456
Receivables	---	31,701,462
Capital assets:		
Nondepreciable capital assets	28,790,553	17,070,336
Capital assets, net of accumulated depreciation	109,983,019	95,709,878
Indefeasible right of use	---	5,355,449
Foreclosed real estate	---	347,188
Due from component units	62,917,632	---
Right-to-Use lease asset	7,402,513	767,969
Other noncurrent assets	1,191,965	---
Restricted cash and cash equivalents	---	4,633,936
Restricted investments	251,068,367	6,043,985
Total noncurrent assets	<u>461,354,049</u>	<u>163,607,659</u>
Total assets	<u>540,869,145</u>	<u>231,454,418</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows from pensions	50,347,647	20,386,046
	<u>\$ 591,216,792</u>	<u>\$ 251,840,464</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ 5,866,279	\$ 1,863,676
Current portion of compensated absences payable	2,652,993	---
Accounts payable	4,297,342	9,283,254
Contracts payable	2,278,059	---
Retention payable	1,058,018	---
Due to State governments	765,730	---
Due to primary government	---	3,112,624
Due to fiduciary funds	---	136,039
Accrued payroll and others	3,758,231	2,895,417
Unearned revenue	4,200,006	10,298,795
Other liabilities	642,236	2,270,908
Income tax refunds	804,205	---
Total current liabilities	<u>26,323,099</u>	<u>29,860,713</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	144,932,526	23,859,102
Compensated absences payable, net of current portion	2,682,861	---
Net pension liability	187,035,216	61,822,810
Due to primary government	---	62,917,632
Due to fiduciary funds	---	1,019,845
Total noncurrent liabilities	<u>334,650,603</u>	<u>149,619,389</u>
Total liabilities	<u>360,973,702</u>	<u>179,480,102</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflows from pensions	51,102,427	11,426,357
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	135,400,674	44,653,280
Restricted for:		
Future operations	251,068,367	---
Endowment	---	6,356,960
Debt service	---	250,446
Compact related	4,302,443	---
Other purposes	19,816,078	12,245,685
Unrestricted	(231,446,899)	(2,572,366)
Total net position	<u>179,140,663</u>	<u>60,934,005</u>
	<u>\$ 591,216,792</u>	<u>\$ 251,840,464</u>

See accompanying notes.

Republic of Palau

Statement of Activities

Year ended September 30, 2022

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	\$ 69,695,170	\$ 16,002,205	\$ 30,562,275	\$ 13,249,625	\$(9,881,065)	\$ ---
Education	19,461,581	656,053	2,531,257	---	(16,274,271)	---
Health and welfare	29,014,930	2,049,844	10,771,551	---	(16,193,535)	---
Public safety	9,904,697	67,380	2,923,167	---	(6,914,150)	---
Cultural affairs and recreation	1,906,844	---	41,666	---	(1,865,178)	---
Transportation and commerce	15,231,899	---	2,128,795	10,309,367	(2,793,737)	---
State government appropriations	15,690,424	---	---	---	(15,690,424)	---
Depreciation - unallocated	949,409	---	---	---	(949,409)	---
Interest (unallocated)	1,616,756	---	---	---	(1,616,756)	---
Total primary government	\$ 163,471,710	\$ 18,775,482	\$ 48,958,711	\$ 23,558,992	(72,178,525)	---
Component units:						
National Development Bank of Palau	\$ 3,119,239	\$ 2,468,684	\$ ---	\$ ---	---	(650,555)
Palau Community College	9,634,273	1,509,763	5,885,021	---	---	(2,239,489)
Palau Housing Authority	417,402	178,715	---	---	---	(238,687)
Palau International Coral Reef Center	3,134,763	316,388	1,244,090	---	---	(1,574,285)
Palau National Communications Corporation	14,886,577	11,724,752	---	---	---	(3,161,825)
Palau Visitors Authority	2,500,488	1,301,667	1,088,000	---	---	(110,821)
Palau Public Utilities Corporation	37,440,599	29,084,612	32,250	---	---	(8,323,737)
Protected Areas Network Fund	1,237,553	---	569,571	---	---	(667,982)
Belau Submarine Cable Corporation	4,130,108	2,939,596	---	---	---	(1,190,512)
Total component units	\$ 76,501,002	\$ 49,524,177	\$ 8,818,932	\$ ---	---	(18,157,893)
General revenues:						
Taxes:						
Business gross receipts					13,070,106	---
Alcohol and tobacco					10,894,809	---
Salary and wage					10,002,143	---
General import					4,427,526	---
Hotel occupancy					1,223,615	---
Road use					799,135	---
Fuel export					408,651	---
Other					512,763	---
Unrestricted investment losses					(1,007,081)	(2,760,754)
Contributions from primary government					---	5,857,101
Foreign exchange gain on SDR revaluation					823,465	---
Other					1,951,218	44,180
Total general revenues					43,106,350	3,140,527
Contributions to permanent funds					(57,317,111)	---
Total general revenues and contributions					(14,210,761)	3,140,527
Change in net position					(86,389,286)	(15,017,366)
Net position at beginning of year					265,529,949	75,951,371
Net position at end of year					\$ 179,140,663	\$ 60,934,005

See accompanying notes.

Republic of Palau

Balance Sheet Governmental Funds

September 30, 2022

	General	Special Revenue Grants	Permanent Funds	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 43,163,054	\$ 146	\$ ---	\$ ---	\$ 43,163,200
Investments	9,762,374	---	---	2,379,593	12,141,967
Receivables, net:					
Taxes	4,121,585	---	---	---	4,121,585
General	1,495,711	1,303,189	---	47,604	2,846,504
Federal agencies	---	13,564,735	---	---	13,564,735
Due from component units	66,030,256	---	---	---	66,030,256
Due from other funds	11,053,559	15,183,994	---	11,128,092	37,365,645
Advances	44,182	56,672	---	---	100,854
Prepaid items	89,686	282,539	---	91,402	463,627
Other assets	1,191,965	---	---	---	1,191,965
Restricted assets:					
Investments	---	---	251,068,367	---	251,068,367
	<u>\$ 136,952,372</u>	<u>\$ 30,391,275</u>	<u>\$ 251,068,367</u>	<u>\$ 13,646,691</u>	<u>\$ 432,058,705</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,912,530	\$ 1,042,807	\$ ---	\$ 342,005	\$ 4,297,342
Contracts payable	79,750	2,198,309	---	---	2,278,059
Retention payable	35,616	1,022,402	---	---	1,058,018
Due to State governments	765,730	---	---	---	765,730
Due to other funds	26,312,086	11,053,022	---	537	37,365,645
Accrued payroll and others	2,815,908	139,427	---	3,769	2,959,104
Unearned revenues	90,651	4,109,355	---	---	4,200,006
Other liabilities and accruals	642,236	---	---	---	642,236
Income tax refunds	804,205	---	---	---	804,205
Total liabilities	<u>34,458,712</u>	<u>19,565,322</u>	<u>---</u>	<u>346,311</u>	<u>54,370,345</u>
Fund balances:					
Nonspendable	67,222,221	---	251,068,367	---	318,290,588
Restricted	3,692,020	9,539,993	---	---	13,232,013
Committed	10,174,027	1,301,163	---	13,300,917	24,776,107
Unassigned:					
General fund	21,405,392	---	---	---	21,405,392
Special revenue funds	---	(15,203)	---	(537)	(15,740)
Total fund balances	<u>102,493,660</u>	<u>10,825,953</u>	<u>251,068,367</u>	<u>13,300,380</u>	<u>377,688,360</u>
	<u>\$ 136,952,372</u>	<u>\$ 30,391,275</u>	<u>\$ 251,068,367</u>	<u>\$ 13,646,691</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					138,773,572
Right to Use in governmental activities are not financial resources and, therefore, are not reported in the funds					7,402,513
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				(150,798,805)	
Compensated absences				(5,335,854)	
Accrued interest payable				(799,127)	
Net pension liability				(187,035,216)	
					(343,969,002)
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					50,347,647
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					(51,102,427)
Net position of governmental activities					<u>\$ 179,140,663</u>

See accompanying notes.

Republic of Palau

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

Year ended September 30, 2022

	General	Special Revenue	Permanent	Other Governmental Funds	Total
		Grants	Compact		
Revenues:					
Taxes	\$ 39,450,030	\$ ---	\$ ---	\$ 1,888,718	\$ 41,338,748
Federal and other grants	---	69,408,376	---	---	69,408,376
Net change in the fair value of investments	(1,657,099)	927	(57,317,111)	649,091	(58,324,192)
Fees and charges	4,467,237	---	---	2,162,102	6,629,339
Licenses and permits	12,142,293	---	---	3,850	12,146,143
Other	1,951,218	---	---	---	1,951,218
Total revenues	56,353,679	69,409,303	(57,317,111)	4,703,761	73,149,632
Expenditures:					
Current:					
Judicial Branch	2,973,000	---	---	---	2,973,000
Legislative Branch	5,469,265	---	---	---	5,469,265
Office of the President	1,383,900	---	---	---	1,383,900
Office of the Vice-President	501,045	---	---	---	501,045
Ministry of Finance	9,541,933	---	---	---	9,541,933
Ministry of State	5,734,210	---	---	27,991	5,762,201
Ministry of Human Resources, Culture, Tourism and Development	1,305,889	159,187	---	---	1,465,076
Ministry of Education	8,704,882	2,696,539	---	---	11,401,421
Ministry of Public Infrastructure and Industries	6,637,659	14,656,291	---	353,370	21,647,320
Ministry of Justice	5,969,293	2,228,763	---	129,115	8,327,171
Ministry of Health and Human Services	11,897,169	11,421,545	---	2,271,989	25,590,703
Ministry of Agriculture, Fisheries and the Environment	1,070,979	520,633	---	1,380,817	2,972,429
Boards, Commissions, and Authorities	1,102,523	---	---	---	1,102,523
State Governments	9,353,000	6,337,424	---	---	15,690,424
Independent Agencies	2,690,235	---	---	---	2,690,235
Payments to Component Units	3,526,394	---	---	---	3,526,394
Other Agencies and Activities	4,246,872	26,077,237	---	---	30,324,109
Education Assistance	6,257,164	---	---	---	6,257,164
Capital projects	236,460	---	---	---	236,460
Debt service:					
Principal retirement	4,693,429	---	---	---	4,693,429
Interest	1,616,756	---	---	---	1,616,756
Total expenditures	94,912,057	64,097,619	---	4,163,282	163,172,958
Excess (deficiency) of revenues over (under) expenditures	(38,558,378)	5,311,684	(57,317,111)	540,479	(90,023,326)
Other financing sources (uses):					
Loan proceeds	10,917,937	---	---	---	10,917,937
Operating transfers in	19,103,555	---	---	---	19,103,555
Operating transfers out	---	(2,000,000)	(15,000,000)	(2,103,555)	(19,103,555)
Total other financing sources (uses), net	30,021,492	(2,000,000)	(15,000,000)	(2,103,555)	10,917,937
Net change in fund balances	(8,536,886)	3,311,684	(72,317,111)	(1,563,076)	(79,105,389)
Fund balances at beginning of year	111,030,546	7,514,269	323,385,478	14,863,456	456,793,749
Fund balances at end of year	\$ 102,493,660	\$ 10,825,953	\$ 251,068,367	\$ 13,300,380	\$ 377,688,360

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, 2022

Net change in fund balances - total governmental funds		\$(79,105,389)
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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	\$20,528,228	
Depreciation expense, net	<u>(15,110,245)</u>	
		5,417,983

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	\$(6,687,937)	
Proceeds from ICDF loan	(2,000,000)	
Proceeds from mortgage note payable	(2,230,000)	
Repayment of MICB loans	1,457,140	
Repayment of ADB loan	<u>3,236,289</u>	
		(6,224,508)

Foreign exchange gain on SDR revaluation	823,465
--	---------

Long-term prepayments are not reported in the governmental funds:

Additional prepayment	\$ 2,261,818	
Amortization	<u>(557,358)</u>	
		1,704,460

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	\$(187,240)	
Net pension activity	<u>(8,818,057)</u>	
		(9,005,297)

Change in net position of governmental activities.	\$(<u>86,389,286</u>)
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Republic of Palau

Statement of Fiduciary Net Position Fiduciary Funds

September 30, 2022

	Custodial	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 729,429	\$ 1,209,825	\$ 996,145	\$ 2,935,399
Receivables, net	---	3,390,347	2,251,414	5,641,761
Investments	---	104,239,555	22,815,015	127,054,570
Due from component units	---	1,155,884	---	1,155,884
Prepaid items	---	8,624	---	8,624
Capital assets, net	---	687,628	12,068	699,696
Total assets	729,429	110,691,863	26,074,642	137,495,934
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred outflows from pensions	---	801,158	227,396	1,028,554
	<u>\$ 729,429</u>	<u>\$ 111,493,021</u>	<u>\$ 26,302,038</u>	<u>\$ 138,524,488</u>
<u>LIABILITIES</u>				
Benefits payable	\$ ---	\$ 731,872	\$ ---	\$ 731,872
Medical claims payable	---	1,432,910	---	1,432,910
Other liabilities and accruals	---	59,946	43,856	103,802
Net pension liability	---	3,301,382	889,846	4,191,228
Total liabilities	---	5,526,110	933,702	6,459,812
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred inflows from pensions	---	833,551	316,913	1,150,464
<u>NET POSITION</u>				
Held in trust for:				
Individuals, organizations, and others	729,429	---	---	729,429
Social security benefits	---	105,133,360	---	105,133,360
Pension benefits	---	---	25,051,423	25,051,423
Total net position	729,429	105,133,360	25,051,423	130,914,212
	<u>\$ 729,429</u>	<u>\$ 111,493,021</u>	<u>\$ 26,302,038</u>	<u>\$ 138,524,488</u>

See accompanying notes.

Republic of Palau

Statement of Changes in Fiduciary Net Position Fiduciary Funds

Year ended September 30, 2022

	<u>Custodial</u>	<u>Private Purpose Trust</u>	<u>Pension (and Other Employee Benefit) Trust</u>	<u>Total</u>
Additions:				
Contributions:				
Government employees	\$ ---	\$ 12,556,865	\$ ---	\$ 12,556,865
Private employees	---	10,902,431	---	10,902,431
Retirees and disabled individuals	---	666,394	---	666,394
Employer contributions	---	---	3,510,039	3,510,039
Plan member contributions	---	497,723	3,514,826	4,012,549
Penalties and interest	---	984,749	---	984,749
	---	25,608,162	7,024,865	32,633,027
Allowance for doubtful accounts	---	(321,213)	---	(321,213)
Total contributions	---	25,286,949	7,024,865	32,311,814
Investment loss:				
Net change in the fair value of investment	---	(31,780,193)	(6,096,909)	(37,877,102)
Interest and dividends	---	4,634,955	---	4,634,955
Total investment loss	---	(27,145,238)	(6,096,909)	(33,242,147)
Less investment expense	---	383,071	271,526	654,597
Net investment loss	---	(27,528,309)	(6,368,435)	(33,896,744)
Other	260,347	634,242	376,624	1,271,213
Total additions	260,347	(1,607,118)	1,033,054	(313,717)
Deductions:				
Benefits	---	36,466,128	11,281,816	47,747,944
General and administrative	---	2,021,374	368,486	2,389,860
Total deductions	---	38,487,502	11,650,302	50,137,804
Change in net position held in trust for:				
Social security benefits	260,347	(40,094,620)	---	(39,834,273)
Pension benefits	---	---	(10,617,248)	(10,617,248)
	260,347	(40,094,620)	(10,617,248)	(50,451,521)
Transfer from primary government	469,082	1,955,000	---	2,424,082
Change in fiduciary net position	729,429	(38,139,620)	(10,617,248)	(48,027,439)
Net position at beginning of year	---	143,272,980	35,668,671	178,941,651
Net position at end of year	\$ 729,429	\$ 105,133,360	\$ 25,051,423	\$ 130,914,212

See accompanying notes.

Republic of Palau

Combining Statement of Net Position Component Units

September 30, 2022

	National Development Bank of Palau	Palau Community College	Palau Housing Authority	Palau International Coral Reef Center	Palau National Communications Corporation	Palau Visitors Authority	Palau Public Utilities Corporation	Protected Areas Network Fund	Belau Submarine Cable Corporation	Total
<u>Assets</u>										
Current assets:										
Cash and cash equivalents	\$ 9,598,694	\$ 263,460	\$ 1,639,803	\$ 338,828	\$ 471,581	\$ 430,931	\$ 13,670,687	\$ 768,306	\$ 5,793,160	\$ 32,975,450
Investments	---	---	2,652,189	1,089,022	---	---	---	1,363,051	---	5,104,262
Receivables, net	6,087,862	2,018,782	631,428	790,588	954,970	325,881	3,220,869	52,455	156,750	14,239,585
Inventories	263,190	295,156	---	5,327	719,871	---	11,942,856	---	---	13,226,400
Prepaid expenses and other	49,435	---	---	10,213	473,261	35,496	1,641,755	65,569	25,333	2,301,062
Total current assets	15,999,181	2,577,398	4,923,420	2,233,978	2,619,683	792,308	30,476,167	2,249,381	5,975,243	67,846,759
Noncurrent assets:										
Investments	---	---	---	---	1,977,456	---	---	---	---	1,977,456
Receivables	25,576,933	---	6,124,529	---	---	---	---	---	---	31,701,462
Capital assets:										
Nondepreciable capital assets	---	---	---	---	1,045,203	---	14,546,255	---	1,478,878	17,070,336
Capital assets, net of accumulated depreciation	596,097	2,454,681	464,927	1,406,451	15,986,167	91,093	51,677,691	773	23,031,998	95,709,878
Lease assets, net	---	---	---	---	767,969	---	---	---	---	767,969
Indefeasible right of use	---	---	---	---	---	---	---	---	5,355,449	5,355,449
Foreclosed real estate	347,188	---	---	---	---	---	---	---	---	347,188
Restricted assets:										
Cash and cash equivalents	1,348,518	2,531,684	---	---	753,734	---	---	---	---	4,633,936
Investments	---	6,043,985	---	---	---	---	---	---	---	6,043,985
Total noncurrent assets	27,868,736	11,030,350	6,589,456	1,406,451	20,530,529	91,093	66,223,946	773	29,866,325	163,607,659
Total assets	43,867,917	13,607,748	11,512,876	3,640,429	23,150,212	883,401	96,700,113	2,250,154	35,841,568	231,454,418
<u>Deferred Outflows of Resources</u>										
Deferred outflows from pensions	791,354	3,526,758	229,537	1,288,712	4,686,869	410,192	9,276,421	---	176,203	20,386,046
	\$ 44,659,271	\$ 17,134,506	\$ 11,742,413	\$ 4,929,141	\$ 27,837,081	\$ 1,293,593	\$ 105,976,534	\$ 2,250,154	\$ 36,017,771	\$ 251,840,464
<u>Liabilities</u>										
Current liabilities:										
Current portion of long-term debt	\$ 285,716	\$ ---	\$ ---	\$ ---	\$ 777,960	\$ ---	\$ 400,000	\$ ---	\$ 400,000	\$ 1,863,676
Accounts payable	175,356	22,901	61,763	86,350	1,351,680	44,619	7,538,124	2,461	---	9,283,254
Due to primary government	579,832	---	285,714	---	---	---	1,100,210	---	1,146,868	3,112,624
Due to fiduciary funds	136,039	---	---	---	---	---	---	---	---	136,039
Accrued payroll and others	45,332	543,533	---	96,646	945,149	---	928,766	6,231	329,760	2,895,417
Unearned revenues	1,109,174	432,075	---	228,920	1,619,816	---	389,338	57,877	6,461,595	10,298,795
Other liabilities	162,447	---	---	---	442,485	95,995	1,534,192	35,789	---	2,270,908
Total current liabilities	2,493,896	998,509	347,477	411,916	5,137,090	140,614	11,890,630	102,358	8,338,223	29,860,713
Noncurrent liabilities:										
Long-term debt, net of current portion	285,686	---	---	---	15,386,944	---	1,400,000	---	6,786,472	23,859,102
Net pension liability	2,594,001	14,100,744	545,905	3,185,695	13,660,411	1,181,039	26,362,690	---	192,325	61,822,810
Due to primary government	8,277,312	---	3,714,287	---	---	---	31,257,039	---	19,668,994	62,917,632
Due to fiduciary funds	1,019,845	---	---	---	---	---	---	---	---	1,019,845
Total noncurrent liabilities	12,176,844	14,100,744	4,260,192	3,185,695	29,047,355	1,181,039	59,019,729	---	26,647,791	149,619,389
Total liabilities	14,670,740	15,099,253	4,607,669	3,597,611	34,184,445	1,321,653	70,910,359	102,358	34,986,014	179,480,102
<u>Deferred Inflows of Resources</u>										
Deferred inflows from pensions	355,191	2,423,144	138,553	763,203	1,331,405	382,309	6,015,129	---	17,423	11,426,357
<u>Net Position</u>										
Net position:										
Net investment in capital assets	596,097	2,454,681	464,927	1,406,451	866,466	91,093	41,042,188	773	(2,269,396)	44,653,280
Restricted:										
Endowment	---	6,356,960	---	---	---	---	---	---	---	6,356,960
Debt service	---	---	---	---	250,446	---	---	---	---	250,446
Other purposes	1,048,234	2,251,318	6,529,888	269,222	---	---	---	2,147,023	---	12,245,685
Unrestricted	27,989,009	(11,450,850)	1,376	(1,107,346)	(8,795,681)	(501,462)	(11,991,142)	---	3,283,730	(2,572,366)
Total net position	29,633,340	(387,891)	6,996,191	568,327	(7,678,769)	(410,369)	29,051,046	2,147,796	1,014,334	60,934,005
	\$ 44,659,271	\$ 17,134,506	\$ 11,742,413	\$ 4,929,141	\$ 27,837,081	\$ 1,293,593	\$ 105,976,534	\$ 2,250,154	\$ 36,017,771	\$ 251,840,464

See accompanying notes.

Republic of Palau

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

Year ended September 30, 2022

	National Development Bank of Palau	Palau Community College	Palau Housing Authority	Palau International Coral Reef Center	Palau National Communications Corporation	Palau Visitors Authority	Palau Public Utilities Corporation	Protected Areas Network Fund	Belau Submarine Cable Corporation	Total
Expenses	\$ 3,119,239	\$ 9,634,273	\$ 417,402	\$ 3,134,763	\$ 14,886,577	\$ 2,500,488	\$ 37,440,599	\$ 1,237,553	\$ 4,130,108	\$ 76,501,002
Program revenues:										
Charges for services	2,468,684	1,509,763	178,715	316,388	11,724,752	1,301,667	29,084,612	---	2,939,596	49,524,177
Operating grants and contributions	---	5,885,021	---	1,244,090	---	1,088,000	32,250	569,571	---	8,818,932
Total program revenues	2,468,684	7,394,784	178,715	1,560,478	11,724,752	2,389,667	29,116,862	569,571	2,939,596	58,343,109
Net program revenues (expenses)	(650,555)	(2,239,489)	(238,687)	(1,574,285)	(3,161,825)	(110,821)	(8,323,737)	(667,982)	(1,190,512)	(18,157,893)
General revenues:										
Contributions from primary government	---	2,596,000	135,000	424,106	---	---	2,576,220	125,775	---	5,857,101
Investment earnings	7,173	(1,513,321)	(630,188)	(236,043)	---	---	573	(389,032)	84	(2,760,754)
Other	17,400	52,123	(407,208)	329,664	---	10,603	3,418	38,180	---	44,180
Total general revenues	24,573	1,134,802	(902,396)	517,727	---	10,603	2,580,211	(225,077)	84	3,140,527
Change in net position	(625,982)	(1,104,687)	(1,141,083)	(1,056,558)	(3,161,825)	(100,218)	(5,743,526)	(893,059)	(1,190,428)	(15,017,366)
Net position at beginning of year	30,259,322	716,796	8,137,274	1,624,885	(4,516,944)	(310,151)	34,794,572	3,040,855	2,204,762	75,951,371
Net position at end of year	\$ 29,633,340	\$ (387,891)	\$ 6,996,191	\$ 568,327	\$ (7,678,769)	\$ (410,369)	\$ 29,051,046	\$ 2,147,796	\$ 1,014,334	\$ 60,934,005

See accompanying notes.

Republic of Palau

Notes to Financial Statements

Year ended September 30, 2022

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 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.
- 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 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 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 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.

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 the 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 \$275,198,888 of restricted net position, of which \$19,828,078 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 90 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 non-operating 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 include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating 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 non-major funds are combined in a column in the fund financial statements and detailed in the combining statements.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Measurement Focus and Basis of Accounting, continued

Fund Accounting, continued

The Republic reports on 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.
- The non-major governmental funds are comprised of special revenue funds, which account for financial resources obtained from specific revenue sources and used for restricted purposes.

In addition, the Republic reports the following fiduciary funds:

- 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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Measurement Focus and Basis of Accounting, continued

Fund Accounting, continued

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

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

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Receivables, continued

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

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.

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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (e.g., roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at fair market value at the date of donation. Land and non-depreciable land improvements are capitalized, regardless of cost. Singular pieces of machinery and equipment that equal or exceed \$50,000 are capitalized. Vehicles that equal to or exceed \$5,000 are capitalized.

Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Vehicles have been grouped together regardless of cost and depreciated on a composite basis.

Management has elected to present only assets acquired 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, 2022.

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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

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.

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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Pensions, continued

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.

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 Balance

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 a 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.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Fund Balance, continued

A formal minimum fund balance policy has not been adopted.

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, 2022, the Republic implemented the following pronouncements:

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this Statement 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

Recently Adopted Accounting Pronouncements, continued

- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances 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. The implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that address different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:
 - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation 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

Recently Adopted Accounting Pronouncements, continued

- 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

The Republic has not implemented GASB Statement No. 87, *Leases*, which 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 is unable to ascertain the impact, if any, on the accompanying financial statements.

Upcoming Accounting Pronouncements

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 the fiscal year ending September 30, 2023.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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 the 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 the fiscal year ending September 30, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for the fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for the fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP assets effective for the fiscal year ending September 30, 2023.

Republic of Palau

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability effective for fiscal year ending September 30, 2023.
- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for the fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for the fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for the fiscal year ending September 30, 2025.

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, 2022, the Republic has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants</u>	<u>Other Governmental</u>	<u>Total</u>
<u>\$429,406</u>	<u>\$2,581,701</u>	<u>\$322,554</u>	<u>\$3,333,661</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.

RPPL 9-20 reinstated 40 PNCA Section 407 reestablishing the Board of Trustees charged with the prudent administration and management of the Compact Section 211(f) Fund. 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 an 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 range.

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, 2022, the carrying amount of the primary government's total cash and cash equivalents was \$43,163,200 and the corresponding bank balances were \$43,320,353. Of the bank balances, \$43,320,299 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022, bank deposits in the amount of \$750,000 were FDIC insured. The remaining bank deposits of \$54 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, 2022, the carrying amount of the fiduciary fund's total cash and cash equivalents was \$2,935,399 and the corresponding bank balances were \$3,092,581, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2022, bank deposits in the amount of \$1,552,153 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, 2022, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents was \$37,609,386 and the corresponding bank balances were \$36,878,589. Of the bank balances, \$36,358,704 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, 2022, bank deposits in the amount of \$4,399,356 were FDIC or SIPC insured. The remaining bank deposits of \$519,885 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, 2022, investments of the primary government are as follows:

General Fund:	
Equities	\$ 6,580,557
Fixed income	2,738,607
Real estate and tangibles	221,861
Money market funds	<u>221,349</u>
	<u>9,762,374</u>
Permanent Fund:	
Equities	165,781,375
Fixed income	49,221,312
Real estate and tangibles	14,472,361
Alternatives	14,038,588
Money market funds	<u>7,554,731</u>
	<u>251,068,367</u>
Other Governmental Funds:	
Equities	2,372,334
Money market funds	<u>7,259</u>
	<u>2,379,593</u>
	<u>\$263,210,334</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, 2022.

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

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

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Primary Government, continued

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, 2022, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2022, investments in fixed income debt securities of the primary government were as follows:

General Fund

	Less Than 1	<u>Investment Maturities (In Years)</u>		Greater Than 10	Fair Value
		<u>1 to 5</u>	<u>6 to 10</u>		
U.S. Treasury notes	\$93,861	\$1,062,202	\$ 596,257	\$ 96,580	\$1,848,900
Other U.S. government obligations	---	---	---	239,394	239,394
Corporate notes and bonds	---	<u>217,230</u>	<u>433,083</u>	---	<u>650,313</u>
	<u>\$93,861</u>	<u>\$1,279,432</u>	<u>\$1,029,340</u>	<u>\$335,974</u>	<u>\$2,738,607</u>

Permanent Fund

	Less Than 1	<u>Investment Maturities (In Years)</u>		Greater Than 10	Fair Value
		<u>1 to 5</u>	<u>6 to 10</u>		
U.S. Treasury notes	\$ 576,249	\$10,513,224	\$ 4,021,665	\$1,260,718	\$16,371,856
U.S. Municipal obligations	224,829	303,251	321,019	503,671	1,352,770
Other U.S. government obligations	---	1,393,833	853,254	2,070,726	4,317,813
Preferred securities	663,152	---	---	---	663,152
Corporate notes and bonds	<u>1,323,437</u>	<u>13,871,591</u>	<u>9,293,897</u>	<u>2,026,796</u>	<u>26,515,721</u>
	<u>\$2,787,667</u>	<u>\$26,081,899</u>	<u>\$14,489,835</u>	<u>\$5,861,911</u>	<u>\$49,221,312</u>

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Primary Government, continued

As of September 30, 2022, credit quality distribution for debt securities of the primary government were as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>General Fund</u>	<u>Permanent Fund</u>
U.S. Treasury notes	AA	\$1,848,900	\$16,371,856
U.S. Municipal obligations	AAA	---	124,341
U.S. Municipal obligations	AA	---	291,161
U.S. Municipal obligations	A	---	277,825
U.S. Municipal obligations	Not Rated	---	659,443
Other U.S. government obligations	AA	---	2,690,470
Other U.S. government obligations	Not Rated	239,394	1,627,343
Preferred securities	BBB	---	275,641
Preferred securities	Not Rated	---	387,511
Corporate notes and bonds	AAA	---	632,378
Corporate notes and bonds	AA	11,829	1,409,258
Corporate notes and bonds	A	268,095	4,751,534
Corporate notes and bonds	BBB	370,389	4,109,642
Corporate notes and bonds	BB	---	3,333,362
Corporate notes and bonds	B	---	5,125,052
Corporate notes and bonds	CCC	---	88,463
Corporate notes and bonds	Not Rated	---	7,066,032
		<u>\$2,738,607</u>	<u>\$49,221,312</u>

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Primary Government, continued

Investments of the primary government have the following recurring fair value measurements as of September 30, 2022:

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	\$1,848,900	\$1,848,900	\$ ---	\$ ---
Other U.S. government obligations	239,394	---	239,394	---
Corporate notes and bonds	650,313	---	650,313	---
	<u>2,738,607</u>	<u>1,848,900</u>	<u>889,707</u>	<u>---</u>
Equity securities	6,580,557	6,580,557	---	---
Real estate and tangibles	221,861	---	---	221,861
	<u>6,802,418</u>	<u>6,580,557</u>	<u>---</u>	<u>221,861</u>
Total investments by fair value level	9,541,025	<u>\$8,429,457</u>	<u>\$889,707</u>	<u>\$221,861</u>
Investments measured at amortized cost:				
Money market funds	221,349			
	<u>\$9,762,374</u>			

Permanent Fund

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	\$ 16,371,856	\$ 16,371,856	\$ ---	\$ ---
U.S. Municipal obligations	1,352,770	---	1,352,770	---
Other U.S. government obligations	4,317,813	---	4,317,813	---
Preferred securities	663,152	---	663,152	---
Corporate notes and bonds	26,515,721	---	26,515,721	---
	<u>49,221,312</u>	<u>16,371,856</u>	<u>32,849,456</u>	<u>---</u>
Equity securities	165,781,375	165,781,375	---	---
Real estate and tangibles	14,472,361	---	---	14,472,361
	<u>180,253,736</u>	<u>165,781,375</u>	<u>---</u>	<u>14,472,361</u>
Total investments by fair value level	229,475,048	<u>\$182,153,231</u>	<u>\$32,849,456</u>	<u>\$14,472,361</u>
Investments measured at NAV:				
Alternatives	14,038,588			
Investments measured at amortized cost:				
Money market funds	7,554,731			
	<u>\$251,068,367</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	\$2,372,334	<u>\$2,372,334</u>	<u>\$ ---</u>	<u>\$ ---</u>
Investments measured at amortized cost:				
Money market funds	7,259			
	<u>\$2,379,593</u>			

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds

Republic of Palau Social Security Administration (ROPSSA)

As of September 30, 2022, investments of ROPSSA are as follows:

Mutual funds	\$ 81,730,458
Fixed income	19,897,554
Money market funds	<u>2,611,543</u>
	<u>\$104,239,555</u>

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).

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

- 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.

(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 Depositary Receipts (EDRs) and Global Depositary 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, 2022, 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	\$ ---	\$ 565,133	\$ ---	\$1,334,611	\$ 1,899,744
U.S. Municipal obligations	---	1,283,739	989,380	933,812	3,206,931
Other U.S. government obligations	---	1,835,218	995,373	1,503,338	4,333,929
Corporate notes and bonds	<u>761,681</u>	<u>4,995,869</u>	<u>2,058,842</u>	<u>2,640,558</u>	<u>10,456,950</u>
	<u>\$761,681</u>	<u>\$8,679,959</u>	<u>\$4,043,595</u>	<u>\$6,412,319</u>	<u>\$19,897,554</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's credit quality distribution for debt securities as of September 30, 2022, is as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Amount</u>
U.S. Treasury notes	AAA	\$ 1,334,612
U.S. Treasury notes	Not Rated	565,132
U.S. Municipal obligations	AA	1,520,634
U.S. Municipal obligations	A	447,605
U.S. Municipal obligations	Not Rated	1,238,692
Other U.S. government obligations	AAA	3,916,178
Other U.S. government obligations	Not Rated	417,751
Corporate notes and bonds	AAA	864,604
Corporate notes and bonds	AA	724,279
Corporate notes and bonds	A	3,445,142
Corporate notes and bonds	BBB	1,045,758
Corporate notes and bonds	Not Rated	<u>4,377,167</u>
		<u>\$19,897,554</u>

ROPSSA has the following recurring fair value measurements as of September 30, 2022:

	<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	\$ 1,899,744	\$1,899,744	\$ ---	\$ ---
U.S. Municipal obligations	3,206,931	---	3,206,931	---
Other U.S. government obligations	4,333,929	---	4,333,929	---
Corporate notes and bonds	<u>10,456,950</u>	---	<u>10,456,950</u>	---
Total investments by fair value level	19,897,554	<u>\$1,899,744</u>	<u>\$17,997,810</u>	<u>\$ ---</u>
Investments measured at NAV:				
Mutual funds	81,730,458			
Investments measured at amortized cost:				
Money market funds	<u>2,611,543</u>			
	<u>\$104,239,555</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)

As of September 30, 2022, investments of ROPCSPP are as follows:

Equities	\$12,822,648
Fixed income	<u>9,992,367</u>
	<u>\$22,815,015</u>

The deposit and investment policies of ROPCSPP are as follows:

1. Any pertinent restrictions existing under the laws of the Republic, with respect to the Fund that may exist now or in the future, will be the governing restriction.
2. U.S. and non-U.S. equities, American Depositary Receipts, convertible bonds, preferred stocks, fixed income securities, mutual funds and short-term securities are permissible investments.
3. No individual security or any issuer, other than that of the United States Government, and alternative investments, shall constitute more than 10% of any investment manager's portfolio.
4. Holdings of an issuer shall constitute no more than 5% of the outstanding securities of such issuer.
5. Investments in a registered mutual fund managed by the investment manager are subject to the prior approval of the Board of Trustees.
6. The following securities and transactions are not authorized without prior written Board of Trustees approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and margin transactions.
7. An investment manager's portfolio shall not be excessively over weighted in any one industry (as compared to respective benchmark index) without prior approval by the Board of Trustees.

Investments may be made in the following investment types:

Fixed Income:

- (A) All fixed income securities held in the portfolio shall have a Standard & Poor's credit quality rating of no less "BBB", or an equivalent credit quality rating from Moody's (Baa) or Fitch (BBB). U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be of the highest rating.

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

- (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 compared to alternative issuers.
 - b) The local banking institutions must provide annual audited financial statements for Board of Trustee review. The Board of Trustees is charged with monitoring the financial health of the local banking institutions. Should concerns arise with respect to the financial condition of the local banking institutions, the Board of Trustees shall take appropriate action.
 - c) The local banking institution shall promptly inform the Board of Trustees, in writing, of any significant or material matters pertaining to the institution, including, but not limited to: ownership; organizational structure; financial condition; and any material proceedings affecting the firm.
 - d) Provide collateral, acceptable to the Board, to secure the Local CDs.

Equities:

- (A) Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive.
- (B) Equity holdings shall be restricted to readily marketable securities of corporations that are traded on the major exchanges and over the counter.

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

- (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.

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.

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

- (B) Investments strategies may include, but are not limited to, the following: statistical arbitrage, momentum trading, debt/equity financing, leveraged buyouts (LBO), venture capital, mezzanine debt, equity market neutral, real estate securities, fixed income arbitrage, equity long/short, global macro, master limited partnerships, commodities and futures, and/or structured credit products. The foregoing allowable strategies may be pursued in any manner including through collective investment vehicles such as hedge funds, funds of hedge funds, private equity (i.e. LBO, Venture, Mezzanine Debt, etc.) funds and funds of funds, real estate funds and funds of funds, commodity pools, and structured credit products such as equity collateralized debt obligations.
- (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, 2022, ROPCSPP'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	\$ ---	\$ 83,419	\$4,466,602	\$1,356,628	\$5,906,649
U.S. Municipal obligations	---	---	---	782,397	782,397
Preferred securities	153,738	---	---	---	153,738
Corporate notes and bonds	67,335	1,067,747	1,982,306	32,195	3,149,583
	<u>\$221,073</u>	<u>\$1,151,166</u>	<u>\$6,448,908</u>	<u>\$2,171,220</u>	<u>\$9,992,367</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, 2022, is as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Amount</u>
U.S. Treasury notes	AAA	\$5,906,649
U.S. Municipal obligations	Not Rated	782,397
Preferred securities	BBB	26,488
Preferred securities	Not Rated	127,250
Corporate notes and bonds	A	1,931,317
Corporate notes and bonds	BBB	30,752
Corporate notes and bonds	Not Rated	<u>1,187,514</u>
		<u>\$9,992,367</u>

ROPCSPP has the following recurring fair value measurements as of September 30, 2022:

	<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	\$ 5,906,649	\$ 5,906,649	\$ ---	\$ ---
U.S. Municipal obligations	782,397	---	782,397	---
Preferred securities	153,738	---	153,738	---
Corporate notes and bonds	<u>3,149,583</u>	---	<u>3,149,583</u>	---
	<u>9,992,367</u>	<u>5,906,649</u>	<u>4,085,718</u>	---
Equity securities	11,397,945	11,397,945	---	---
Real Estate Investment Trusts	<u>1,424,703</u>	<u>1,424,703</u>	---	---
	<u>12,822,648</u>	<u>12,822,648</u>	---	---
Total investments by fair value level	<u>\$22,815,015</u>	<u>\$18,729,297</u>	<u>\$4,085,718</u>	<u>\$ ---</u>

Discretely Presented Component Units

Palau Community College (PCC)

As of September 30, 2022, investments of PCC are as follows:

Equities	\$3,967,666
Fixed income	1,490,460
Real estate and tangibles	406,963
Money market funds	<u>178,896</u>
	<u>\$6,043,985</u>

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Discretely Presented Component Units, continued

Palau Community College (PCC), continued

As of September 30, 2022, maturities of investments in fixed income securities for PCC are as follows:

		<u>Investment Maturities (In Years)</u>			
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	<u>Fair Value</u>
U.S. Treasury notes	\$ ---	\$528,685	\$ 60,150	\$148,003	\$ 736,838
Corporate notes and bonds	---	<u>92,716</u>	<u>532,310</u>	<u>128,596</u>	<u>753,622</u>
	<u>\$ ---</u>	<u>\$621,401</u>	<u>\$592,460</u>	<u>\$276,599</u>	<u>\$1,490,460</u>

PCC's credit quality distribution for debt securities as of September 30, 2022, is as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Amount</u>
U.S. Treasury notes	AAA	\$ 736,838
Corporate notes and bonds	AAA	42,467
Corporate notes and bonds	A	220,636
Corporate notes and bonds	BBB	<u>490,519</u>
		<u>\$1,490,460</u>

PCC has the following fair value measurements as of September 30, 2022:

	<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	\$ 736,838	\$ 736,838	\$ ---	\$ ---
Corporate notes and bonds	<u>753,622</u>	<u>---</u>	<u>753,622</u>	<u>---</u>
	<u>1,490,460</u>	<u>736,838</u>	<u>753,622</u>	<u>---</u>
Equity securities	3,967,666	3,967,666	---	---
Real Estate Investment Trusts	<u>406,963</u>	<u>406,963</u>	<u>---</u>	<u>---</u>
	<u>4,374,629</u>	<u>4,374,629</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	5,865,089	<u>\$5,111,467</u>	<u>\$753,622</u>	<u>\$ ---</u>
Investments measured at amortized cost:				
Money market funds	<u>178,896</u>			
	<u>\$6,043,985</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)

As of September 30, 2022, investments of PHA are as follows:

Equities	\$2,644,081
Money market funds	<u>8,108</u>
	<u>\$2,652,189</u>

PHA has the following fair value measurements as of September 30, 2022:

	<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	\$2,644,081	<u>\$2,644,081</u>	\$---	\$---
Investments measured at amortized cost:				
Money market funds	<u>8,108</u>			
	<u>\$2,652,189</u>			

Palau International Coral Reef Center (PICRC)

As of September 30, 2022, investments of PICRC are as follows:

Equities	\$1,050,130
Money market funds	<u>38,892</u>
	<u>\$1,089,022</u>

PICRC has the following fair value measurements as of September 30, 2022:

	<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	\$1,050,130	<u>\$1,050,130</u>	\$---	\$---
Investments measured at amortized cost:				
Money market funds	<u>38,892</u>			
	<u>\$1,089,022</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)

As of December 31, 2022, investments of PNCC are as follows:

Equities	\$1,054,305
Fixed income	679,902
Exchange-traded funds	184,852
Money market funds	<u>58,397</u>
	<u>\$1,977,456</u>

As of December 31, 2022, 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	\$ ---	\$245,010	\$ 28,307	\$ 61,483	\$334,800
Corporate notes and bonds	---	<u>86,740</u>	<u>143,485</u>	<u>114,877</u>	<u>345,102</u>
	<u>\$ ---</u>	<u>\$331,750</u>	<u>\$171,792</u>	<u>\$176,360</u>	<u>\$679,902</u>

PNCC's credit quality distribution for debt securities as of December 31, 2022, is as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Amount</u>
U.S. Treasury notes	AAA	\$334,800
Corporate notes and bonds	AAA	17,109
Corporate notes and bonds	A	120,856
Corporate notes and bonds	BBB	<u>207,137</u>
		<u>\$679,902</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 December 31, 2022:

	<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	\$ 334,800	\$ 334,800	\$ ---	\$ ---
Corporate notes and bonds	<u>345,102</u>	<u>---</u>	<u>345,102</u>	<u>---</u>
	679,902	334,800	345,102	---
Equity securities	<u>1,054,305</u>	<u>1,054,305</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	1,734,207	<u>\$1,389,105</u>	<u>\$345,102</u>	<u>\$---</u>
Investments measured at net asset value:				
Exchange-traded funds	184,852			
Investments measured at amortized cost:				
Money market funds	<u>58,397</u>			
	<u>\$1,977,456</u>			

Protected Areas Network Fund (PANF)

Equities	\$ 959,828
Fixed income	<u>403,223</u>
	<u>\$1,363,051</u>

As of September 30, 2022, maturities of investments in fixed income securities for PANF 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	\$ ---	\$145,462	\$ 16,917	\$37,626	\$200,005
Corporate notes and bonds	<u>---</u>	<u>50,922</u>	<u>121,172</u>	<u>31,124</u>	<u>203,218</u>
	<u>\$---</u>	<u>\$196,384</u>	<u>\$138,089</u>	<u>\$68,750</u>	<u>\$403,223</u>

PANF's credit quality distribution for debt securities as of September 30, 2022, is as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Amount</u>
U.S. Treasury notes	AAA	\$200,005
Corporate notes and bonds	AAA	10,453
Corporate notes and bonds	A	81,571
Corporate notes and bonds	BBB	<u>111,194</u>
		<u>\$403,223</u>

Republic of Palau

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Discretely Presented Component Units, continued

PANF has the following fair value measurements as of September 30, 2022:

	Total	Fair Value Measurements Using		
		(Level 1)	(Level 2)	(Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	\$ 200,005	\$ 200,005	\$ ---	\$ ---
Corporate notes and bonds	<u>203,218</u>	<u>---</u>	<u>203,218</u>	<u>---</u>
	403,223	200,005	203,218	---
Equity securities	<u>959,828</u>	<u>959,828</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	<u>\$1,363,051</u>	<u>\$1,159,833</u>	<u>\$203,218</u>	<u>\$ ---</u>

3. Receivables

Primary Government

Receivables as of September 30, 2022, for the primary government's individual major funds, and nonmajor governmental funds and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	Grants	Permanent Fund	Nonmajor Governmental Funds	Fiduciary Funds	Total
Taxes	\$ 4,121,585	\$ ---	\$ ---	\$ ---	\$ ---	\$ 4,121,585
General	2,522,667	1,303,189	---	10,022,160	---	13,848,016
Federal agencies	---	13,564,735	---	---	---	13,564,735
Contributions	---	---	---	---	6,713,092	6,713,092
Accrued interest	---	---	---	---	169,664	169,664
Other	---	---	---	---	1,963,604	1,963,604
	<u>6,644,252</u>	<u>14,867,924</u>	<u>---</u>	<u>10,022,160</u>	<u>8,846,360</u>	<u>40,380,696</u>
Allowance for uncollectible accounts	<u>(1,026,956)</u>	<u>---</u>	<u>---</u>	<u>(9,974,556)</u>	<u>(3,204,599)</u>	<u>(14,206,111)</u>
	<u>\$ 5,617,296</u>	<u>\$14,867,924</u>	<u>\$ ---</u>	<u>\$ 47,604</u>	<u>\$ 5,641,761</u>	<u>\$ 26,174,585</u>

Discretely Presented Component Units

Receivables as of September 30, 2022, for the discretely presented component units', including applicable allowances for uncollectible accounts, are as follows:

	National Development Bank of Palau	Palau Community College	Palau Housing Authority	Palau International Coral Reef Center	Palau National Communications Corporation	Palau Visitors Authority	Palau Public Utilities Corporation	Protected Areas Network Fund	Belau Submarine Cable Corporation	Total
General	\$ ---	\$ 4,843,909	\$ ---	\$ 217,823	\$ 2,525,225	\$ 264,500	\$ 5,477,060	\$ 52,455	\$ 156,750	\$ 13,537,722
Loans	36,304,601	---	6,529,888	---	---	---	---	---	---	42,834,489
Accrued interest	798,075	---	9,589	---	---	---	---	---	---	807,664
Other	<u>513,700</u>	<u>---</u>	<u>324,827</u>	<u>582,121</u>	<u>(9,397)</u>	<u>62,920</u>	<u>224,333</u>	<u>---</u>	<u>---</u>	<u>1,698,504</u>
	37,616,376	4,843,909	6,864,304	799,944	2,515,828	327,420	5,701,393	52,455	156,750	58,878,379
Allowance for uncollectible accounts	<u>(5,951,581)</u>	<u>(2,825,127)</u>	<u>(108,347)</u>	<u>(9,356)</u>	<u>(1,560,858)</u>	<u>(1,539)</u>	<u>(2,480,524)</u>	<u>---</u>	<u>---</u>	<u>(12,937,332)</u>
	<u>\$31,664,795</u>	<u>\$ 2,018,782</u>	<u>\$ 6,755,957</u>	<u>\$790,588</u>	<u>\$ 954,970</u>	<u>\$325,881</u>	<u>\$ 3,220,869</u>	<u>\$52,455</u>	<u>\$156,750</u>	<u>\$ 45,941,047</u>

Republic of Palau

Notes to Financial Statements, continued

3. Receivables, continued

Discretely Presented Component Units, continued

Loans receivable include the National Development Bank of Palau's loan portfolio for 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. In addition, loans receivable include Palau Housing Authority's loan portfolio for 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 be 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, 2022, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants	\$11,053,022
General	Nonmajor governmental funds	537
Grants	General	15,183,994
Nonmajor governmental funds	General	<u>11,128,092</u>
		<u>\$37,365,645</u>

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

Receivables and payables between funds reflected as due to/from component units as of September 30, 2022, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
National Development Bank of Palau	\$ 8,857,144	\$ ---
Palau Housing Authority	4,000,001	---
Palau Public Utilities Corporation	32,357,249	---
Belau Submarine Cable Corporation	<u>20,815,862</u>	<u>---</u>
	<u>\$66,030,256</u>	<u>\$ ---</u>

Republic of Palau

Notes to Financial Statements, continued

4. Interfund Receivables and Payables, continued

Discretely Presented Component Units

National Development Bank of Palau (NDBP)

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 from NDBP was \$3,857,144 as of September 30, 2022. In addition, the Republic entered into a \$5,000,000 loan agreement in 2020 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 from NDBP was \$5,000,000 as of September 30, 2022.

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 PHA 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 from PHA was \$4,000,001 as of September 30, 2022.

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 loans receivable from PPUC (associated with Loan Number 3060 and Loan Number 3061) was \$20,752,000 and \$1,605,249, respectively, as of September 30, 2022.

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. On August 15, 2022, the Republic entered into an additional \$5,000,000 loan agreement with ADB. The loans are uncollateralized, interest free, and are due and payable in full on July 31, 2041 and July 31, 2047, respectively. The outstanding balance of the loans receivable from PPUC was \$5,000,000 and \$5,000,000, respectively, as of September 30, 2022.

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 loans receivable from BSCC (associated with Loan Number 3346 and Loan Number 3347) was \$13,768,751 and \$7,047,111, respectively, as of September 30, 2022.

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>
2023	\$ 3,112,624	\$ 1,232,136	\$ 4,344,760
2024	3,112,624	1,092,462	4,205,086
2025	3,112,624	1,009,556	4,122,180
2026	3,237,624	1,050,346	4,287,970
2027	3,362,624	965,713	4,328,337
2028 - 2032	18,063,122	4,154,493	22,217,615
2033 - 2037	18,765,097	1,998,484	20,763,581
2038 - 2042	10,206,129	492,028	10,698,157
2043 - 2047	<u>3,057,788</u>	<u>98,445</u>	<u>3,156,233</u>
	<u>\$66,030,256</u>	<u>\$12,093,663</u>	<u>\$78,123,919</u>

Fiduciary Fund

Receivables and payables between funds reflected as due to/from component units at September 30, 2022, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
Republic of Palau Social Security Administration:		
National Development Bank of Palau	\$ <u>1,155,884</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 from NDBP was \$1,155,884 with interest at 4.5% as of September 30, 2022. 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
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>\$ 1,155,884</u>	<u>\$ 123,089</u>	<u>\$ 1,278,973</u>

5. Capital Assets

Capital asset activities for the year ended September 30, 2022, are as follows:

Primary Government

	Balance October 1, 2021	Additions	Deletions	Transfers	Balance September 30, 2022
Depreciable capital assets:					
Building and other improvements	\$ 179,358,696	\$ 195,480	\$ ---	\$ 659,082	\$ 180,213,258
Machinery and equipment	59,122,956	3,887,795	(1,482,000)	---	61,528,751
Vehicles	9,367,420	1,335,155	(373,678)	---	10,328,897
Infrastructure	<u>248,761,720</u>	<u>4,366,825</u>	<u>---</u>	<u>---</u>	<u>253,128,545</u>
	<u>496,610,792</u>	<u>9,785,255</u>	<u>(1,855,678)</u>	<u>659,082</u>	<u>505,199,451</u>
Less accumulated depreciation:					
Building and other improvements	(116,749,263)	(5,910,994)	---	---	(122,660,257)
Machinery and equipment	(26,655,413)	(5,083,451)	1,482,000	---	(30,256,864)
Vehicles	(7,837,548)	(946,366)	373,678	---	(8,410,236)
Infrastructure	<u>(228,863,963)</u>	<u>(5,025,112)</u>	<u>---</u>	<u>---</u>	<u>(233,889,075)</u>
	<u>(380,106,187)</u>	<u>(16,965,923)</u>	<u>1,855,678</u>	<u>---</u>	<u>(395,216,432)</u>
Total depreciable capital assets, net	<u>116,504,605</u>	<u>(7,180,668)</u>	<u>---</u>	<u>659,082</u>	<u>109,983,019</u>
Nondepreciable capital assets:					
Land	3,899,403	---	---	---	3,899,403
Construction in progress	<u>12,951,581</u>	<u>13,363,251</u>	<u>(764,600)</u>	<u>(659,082)</u>	<u>24,891,150</u>
	<u>16,850,984</u>	<u>13,363,251</u>	<u>(764,600)</u>	<u>(659,082)</u>	<u>28,790,553</u>
	<u>\$ 133,355,589</u>	<u>\$ 6,182,583</u>	<u>\$ (764,600)</u>	<u>\$ ---</u>	<u>\$ 138,773,572</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	\$ 934,975
Education	305,481
Health and welfare	2,394,080
Public safety	2,156,457
Cultural affairs and recreation	224,954
Transportation and commerce	10,000,567
Unallocated	<u>949,409</u>
Total depreciation expense	<u>\$16,965,923</u>

Fiduciary Funds

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2021</u>	<u>Additions and Transfers</u>	<u>Deletions and Transfers</u>	<u>Balance at September 30, 2022</u>
Depreciable capital assets:					
Office furniture and equipment	4 - 13 years	\$ 1,162,764	\$ 27,429	\$ ---	\$ 1,190,193
Building and improvements	30 years	589,627	1,088	---	590,715
Vehicles	5 years	<u>119,203</u>	<u>---</u>	<u>---</u>	<u>119,203</u>
		1,871,594	28,517	---	1,900,111
Less accumulated depreciation		<u>(985,000)</u>	<u>(215,415)</u>	<u>---</u>	<u>(1,200,415)</u>
		<u>\$ 886,594</u>	<u>\$ (186,898)</u>	<u>\$ ---</u>	<u>\$ 699,696</u>

Discretely Presented Component Units

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2021</u>	<u>Additions and Transfers</u>	<u>Deletions and Transfers</u>	<u>Balance at September 30, 2022</u>
Depreciable capital assets:					
Buildings	3 - 30 years	\$ 25,944,024	\$ 326,835	\$ ---	\$ 26,270,859
Utility plant	2 - 30 years	199,610,657	24,279,105	(108,719)	223,781,043
Machinery and equipment	2 - 20 years	15,683,568	470,424	(51,578)	16,102,414
Infrastructure	2 - 15 years	<u>3,457,424</u>	<u>1,420</u>	<u>(20,853)</u>	<u>3,437,991</u>
		244,695,673	25,077,784	(181,150)	269,592,307
Less accumulated depreciation		<u>(164,265,119)</u>	<u>(9,761,241)</u>	<u>143,932</u>	<u>(173,882,428)</u>
		80,430,554	15,316,543	(37,218)	95,709,879
Non-depreciable capital assets:					
Construction in progress		<u>27,220,479</u>	<u>2,210,538</u>	<u>(12,360,682)</u>	<u>17,070,335</u>
		<u>\$ 107,651,033</u>	<u>\$17,527,081</u>	<u>\$(12,397,900)</u>	<u>\$ 112,780,214</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, 2022, accumulated amortization expense of \$1,311,085 has been recorded.

7. Long-term Debt

Primary Government

Under 40 PNC §504, the Republic, by and through the President, shall have authority to borrow money and incur long-term obligations backed by the full faith and credit of the Republic. Any borrowing more than \$35,000,000 must be approved by joint resolution of the same by the Olbiil era Kelulau. As of September 30, 2022, 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	\$ 5,283,731
Loan No. 2692 PAL (SF) Water Sector Improvement Program	October 6, 2011	1.5%	November 1, 2034	2,222,818
Loan No. 3060 PAL Koror-Airai Sanitation Project	March 28, 2014	1.58%	October 1, 2037	20,752,000
Loan No. 3061 PAL (SF) Koror-Airai Sanitation Project	March 28, 2014	1.5%	October 1, 2044	1,502,664
Loan No. 3346 PAL North Pacific Regional Connectivity Investment Project	March 7, 2016	1.11%	December 1, 2040	13,768,751
Loan No. 3347 PAL (SF) North Pacific Regional Connectivity Investment Project	March 7, 2016	2%	December 1, 2040	6,467,370
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	20,000,000
Loan No. 4198 PAL Palau Public Utilities Corporation Reform Program #2	August 15, 2022	2%	August 15, 2047	5,000,000
				<u>119,997,334</u>
Mega International Commercial Bank (MICB):				
Loan No. 070026 Palau International Airport Repaving Project	August 24, 2004	3.5%	October 28, 2024	1,142,897
Loan No. 025-105002 Agriculture and Aquaculture Development Project	March 31, 2016	1.27%	March 31, 2036	3,857,143
Loan No. 025-105003 Housing Project	April 8, 2016	2.24%	April 8, 2036	4,000,001
Loan No. 025-107001 Housing Loan	September 6, 2019	1.29%	September 6, 2039	14,571,430
				<u>23,571,471</u>
International Cooperation and Development Fund (ICDF):				
Women and Youth Entrepreneurs	March 30, 2020	4%	March 30, 2041	5,000,000
Mortgage note payable	September 14, 2022	3.5%	September 14, 2032	2,230,000
				<u>\$150,798,805</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 Palau Public Utilities Corporation to finance sanitation improvement projects.

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

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

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

Loan Number 4198 PAL (COL) in the amount of \$5,000,000 is to be on-lent to PPUC to improve the financial sustainability of PPUC.

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Primary Government, continued

Asian Development Bank (ADB), continued

The abovementioned ADB loans payable 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 payable denominated in SDR are subject to remeasurement at the year-end SDR exchange rate.

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.

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Primary Government, continued

Mega International Commercial Bank (MICB), continued

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

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

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

The abovementioned MICB loans payable are uncollateralized and are backed by the full faith and credit of the Republic. The MICB loans are governed by the 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.

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Primary Government, continued

Mega International Commercial Bank (MICB), continued

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

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

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

International Cooperation and Development Fund (ICDF)

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

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

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Primary Government, continued

International Cooperation and Development Fund (ICDF), continued

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.

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%).

Mortgage Note Payable

On September 14, 2022, the Republic entered into a purchase agreement for the Republic's United Nations Mission Office located in New York in the amount of \$3,730,000, including a deposit of \$1,500,000. The remaining amount of \$2,230,000 was financed by a mortgage note, interest at 3.5% per annum, with interest only monthly payments of \$6,514 due commencing October 14, 2022 continuing through September 14, 2032 at which the principal amount becomes due and payable.

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Primary Government, continued

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

Year Ending September 30,	Principal	Interest	Total
2023	\$ 5,866,279	\$ 3,543,971	\$ 9,410,250
2024	7,249,574	3,700,763	10,950,337
2025	7,584,678	3,300,340	10,885,018
2026	7,869,197	3,099,337	10,968,534
2027	8,025,358	2,918,013	10,943,371
2028-2032	43,606,790	11,624,009	55,230,799
2033-2037	39,301,011	6,022,269	45,323,280
2038-2042	21,920,459	1,793,530	23,713,989
2043-2047	<u>9,375,459</u>	<u>353,449</u>	<u>9,728,908</u>
	<u>\$150,798,805</u>	<u>\$36,355,681</u>	<u>\$187,154,486</u>

Changes in long-term debt of the primary government for the year ended September 30, 2022 was as follows:

	Balance October 1, 2021	Additions	Reductions	Balance September 30, 2022	Due Within One Year
Loans payable:					
ADB loans	\$117,369,151	\$6,687,937	\$(4,059,754)	\$119,997,334	\$3,686,453
MICB loans	25,028,611	---	(1,457,140)	23,571,471	1,885,708
ICDF loans	<u>3,000,000</u>	<u>2,000,000</u>	<u>---</u>	<u>5,000,000</u>	<u>294,118</u>
	145,397,762	8,687,937	(5,516,894)	148,568,805	5,866,279
Mortgage note payable	<u>---</u>	<u>2,230,000</u>	<u>---</u>	<u>2,230,000</u>	<u>---</u>
	<u>\$145,397,762</u>	<u>\$10,917,937</u>	<u>\$(5,516,894)</u>	<u>\$150,798,805</u>	<u>\$5,866,279</u>

Discretely Presented Component Units

As of September 30, 2022, the discretely presented component units had the following long-term debt outstanding and payable:

	Dated Date	Interest Rate	Final Maturity	Outstanding Amount
National Development Bank of Palau:				
Mega International Commercial Bank	March 5, 2004	3.5%	July 1, 2024	\$ 571,402
Palau National Communications Corporation:				
Rural Utilities Services	October 1, 1992	3%	May 1, 2039	16,164,904
Palau Public Utilities Corporation:				
Mega International Commercial Bank	September 4, 2006	3.5%	December 11, 2026	1,800,000
Belau Submarine Cable Corporation:				
Japan Bank for International Corporation	January 13, 2021	1.34%-1.75%	December 19, 2032	3,593,236
Sumitomo Mitsui Banking Corporation	January 13, 2021	1.34%-1.75%	December 19, 2032	<u>3,593,236</u>
				<u>\$25,722,778</u>

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Discretely Presented Component Units, continued

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.

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 September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$285,716	\$19,999	\$305,715
2024	<u>285,686</u>	<u>9,999</u>	<u>295,685</u>
	<u>\$571,402</u>	<u>\$29,998</u>	<u>\$601,400</u>

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Discretely Presented Component Units, continued

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 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 written approval of RUS.

Due to the severe financial impacts caused by the COVID-19 pandemic in 2020, PNCC entered into two Deferral Agreements with RUS. The first Deferral Agreement was signed on July 31, 2020, deferring principal payments for 12 months starting July 2020, with PNCC required to make interest payments during this period. After the initial deferment period ended in July 2021, an additional deferment period was agreed upon, extending until December 31, 2021. Once the deferment period concluded, PNCC was to resume monthly principal and interest payments until maturity. The deferred principal amount would be re-amortized after the deferment period.

The negative loan covenants required PNCC to submit monthly and quarterly financial statements, monthly billing and collection reports, balances of accounts receivable and accounts payable, and the number of customers by service offering type. During the principal deferment period, PNCC was prohibited from issuing bonuses or increments to employees or officers as a result of the deferral agreement. PNCC was also restricted from using its funds to pay any debts or other amounts owed to creditors other than RUS without prior written approval from RUS. However, PNCC was allowed to make payments for work performed and materials provided in the ordinary course of business. Additionally, without the prior written consent of RUS, PNCC could not make any membership withdrawals, unit redemptions, or other profit allocations to any enterprise of the Republic, nor make any dividend payments or other distributions resembling investments, guarantees, extensions of credit, loans, or advance payments on obligations.

On January 20, 2022, PNCC entered into a Second Amended Deferral Agreement with RUS, deferring principal payments on the outstanding debt of the Note for 30 months, from July 31, 2020, through December 31, 2022. During this period, PNCC was required to make interest payments only. Consequently, the original Promissory Note dated May 16, 1994, in the amount of \$39,143,000, was amended on July 7, 2022, with a remaining unpaid principal balance of \$16,560,001. The amended Promissory Note reduced the interest rate from 4.59% to 3% and extended the maturity date from October 2029 to May 2039. All other deferment covenants, as outlined previously, remain applicable to the Second Amended Deferral Agreement. Beginning July 31, 2022, PNCC resumed making monthly principal and interest payments on the Note.

The management of PNCC believes it follows the RUS mortgage loan covenants.

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Discretely Presented Component Units, continued

Palau National Communications Corporation (PNCC), continued

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 777,960	\$ 476,224	\$ 1,254,184
2024	801,504	452,680	1,254,184
2025	826,082	428,102	1,254,184
2026	851,127	403,057	1,254,184
2027	877,015	377,169	1,254,184
2028 - 2032	4,801,682	1,445,540	6,247,222
2033 - 2037	5,577,842	693,081	6,270,923
2038 - 2039	<u>1,651,692</u>	<u>38,231</u>	<u>1,689,923</u>
	<u>\$16,164,904</u>	<u>\$4,314,084</u>	<u>\$20,478,988</u>

Palau Public Utilities Corporation (PPUC)

The loans are to finance the purchase of portable generators, crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators and is guaranteed by the Republic.

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$1,800,000</u>	<u>\$157,500</u>	<u>\$1,957,500</u>

Republic of Palau

Notes to Financial Statements, continued

7. Long-term Debt, continued

Discretely Presented Component Units, continued

Belau Submarine Cable Corporation (BSCC)

In 2021, BSCC and the Japan Bank for International Corporation (JBIC), with Sumitomo Mitsui Banking Corporation (SMBC) as a participating financial institution (collectively, “the lenders”), entered into a term loan agreement. The loan facility, which is guaranteed by the Republic, has a maximum principal amount not exceeding \$8,000,000 in two tranches. A tranche to be made available by JBIC in an agreement principal amount not exceeding \$4,000,000 (Tranche A), and a tranche to be made available by SMBC in an agreement principal amount not exceeding \$4,000,000 (Tranche B).

The agreement provides disbursement procedures and approval process by the lenders and does not allow re-borrowing any part of the loan facility that is repaid; with the disbursement period expiring on the earliest of the date on which the loan facility is fully utilized or fully cancelled, or May 15, 2023, or such other date as the parties may otherwise negotiate and agree in writing.

As of September 30, 2022, interest rates on the JBIC and SMBC loans have not yet been determined. Prior to the drawdowns during the year ended September 30, 2022, the original commitment had interest ranging from 1.336% to 1.75%. Loan repayment is semi-annual installments of \$400,000, commencing June 19, 2023, maturing on December 19, 2032, with the first 10 semi-annual payments to be applied to Tranche B and the remaining 10 semi-annual payments to be applied to Tranche A.

Changes in long-term debt of the discretely presented component units for the year ended September 30, 2022 was as follows:

	Balance October 1, 2021	Additions	Reductions	Balance September 30, 2022	Due Within One Year
Loans payable:					
NDBP loans	\$ 857,118	\$ ---	\$ (285,716)	\$ 571,402	\$ 285,716
PNCC loans	16,570,858	---	(415,954)	16,164,904	777,960
PPUC loans	2,200,000	---	(400,000)	1,800,000	400,000
BSCC loans	---	7,186,472	---	7,186,472	400,000
	<u>\$19,627,976</u>	<u>\$7,186,472</u>	<u>\$ (1,101,670)</u>	<u>\$25,722,778</u>	<u>\$1,863,676</u>

8. Change in Other Long-term Liabilities

Primary Government

During the year ended September 30, 2022, the following changes occurred in other liabilities reported as part of the primary government’s long-term liabilities in the statement of net position:

	Balance October 1, 2021	Additions	Reductions	Balance September 30, 2022	Due Within One Year
Other liabilities:					
Compensated absences	\$ 5,148,614	\$187,240	\$ ---	\$ 5,335,854	\$2,652,993
Net pension liability	<u>213,970,210</u>	---	(26,934,994)	<u>187,035,216</u>	---
	<u>\$219,118,824</u>	<u>\$187,240</u>	<u>\$ (26,934,994)</u>	<u>\$192,371,070</u>	<u>\$2,652,993</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, 2022, are as follows:

	Balance October 1, 2021	Additions	Reductions	Balance September 30, 2022	Due Within One Year
Other liabilities:					
Net pension liability	\$ 61,974,711	\$ ---	\$ (151,901)	\$ 61,822,810	\$ ---
Due to primary government:					
NDBP	7,244,235	2,000,000	(387,091)	8,857,144	579,832
PHA	4,285,715	---	(285,714)	4,000,001	285,714
PPUC	27,501,169	5,600,111	(744,031)	32,357,249	1,100,210
BSCC	20,820,819	---	(4,957)	20,815,862	1,146,868
Due to fiduciary funds:					
NDBP	<u>1,730,959</u>	<u>---</u>	<u>(575,075)</u>	<u>1,155,884</u>	<u>136,039</u>
	<u>\$123,557,608</u>	<u>\$7,600,111</u>	<u>\$(2,148,769)</u>	<u>\$129,008,950</u>	<u>\$3,248,663</u>

9. Restricted Assets

Primary Government

Investments held in a trust fund for the purpose of accumulating resources to fund future government operations.

\$246,142,625

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.

4,925,742
\$251,068,367

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.

\$ 1,348,518

Palau Community College

Deposit accounts established for library fund and endowment fund.

2,531,684

Investments held for endowment purposes.

6,043,985

Republic of Palau

Notes to Financial Statements, continued

9. Restricted Assets, continued

Discretely Presented Component Units, continued

Palau National Communications Corporation

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

753,734

\$10,677,921

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 or beneficiaries currently receiving benefits	1,730
Inactive members entitled to but not yet receiving benefits	404
Inactive nonvested members	1,105
Active members	<u>3,423</u>
	<u>6,662</u>

Republic of Palau

Notes to Financial Statements, continued

10. Pension Plan, continued

General Information About the Pension Plan, continued

Benefits Provided: Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after 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.

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.

Republic of Palau

Notes to Financial Statements, continued

10. Pension Plan, continued

General Information About the Pension Plan, continued

Benefits Provided, continued: 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.

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.

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

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

Republic of Palau

Notes to Financial Statements, continued

10. Pension Plan, continued

General Information About the Pension Plan, continued

Benefits Provided, continued:

- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefit payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

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

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

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least 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 of 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.

Republic of Palau

Notes to Financial Statements, continued

10. Pension Plan, continued

General Information About the Pension Plan, continued

Contributions and Funding Policy, continued: The Republic's contributions to the Plan for the year ended September 30, 2022 were \$2,197,248, which was equal to the statutorily required contributions.

Actuarial Assumptions: Actuarially determined contribution rates were determined by an actuarial valuation as of September 30, 2021, 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.
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%

Republic of Palau

Notes to Financial Statements, continued

10. Pension Plan, continued

General Information About the Pension Plan, continued

Actuarial Assumptions, continued:

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.
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 5.95% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of July 2024, the arithmetic real rate of return for each major investment class is as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
U.S. Equities	46%	8.46%
Non U.S. Equities (Mature)	10%	8.20%
Fixed Income (U.S. Core)	40%	3.72%
Alternatives REIT	4%	8.72%
	<u>100%</u>	

Republic of Palau

Notes to Financial Statements, continued

10. Pension Plan, continued

General Information About the Pension Plan, continued

Discount Rate: The discount rate used to measure the total pension liability was 2.23% 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 2027. For years on or after 2027, a discount rate of 2.17% was used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

Discount Rate Sensitivity Analysis: The following presents the Republic's proportionate share of the net pension liability as of September 30, 2022, calculated using the discount rate of 2.23% as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (1.23%) or 1% higher (3.23%) than the current discount rate.

1% Decrease in Discount Rate <u>1.23%</u>	Current Discount Rate <u>2.23%</u>	1% Increase in Discount Rate <u>3.23%</u>
<u>\$218,754,048</u>	<u>\$187,035,216</u>	<u>\$142,692,280</u>

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

Pension Liability: At September 30, 2022, the Republic reported a liability of \$187,035,216 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, 2022, the Republic's proportion was 61.35%.

Pension Expense: For the year ended September 30, 2022, the Republic recognized pension expense of \$8,818,057.

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 and Inflows of Resources: As of September 30, 2022, 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	\$ 4,598,509	\$30,366,366
Change of assumptions	35,809,581	9,308,142
Net difference between projected and actual earnings on pension plan investments	263,161	1,197,772
Contributions subsequent to the measurement date	2,197,248	---
Changes in proportion and difference between Republic contributions and proportionate share of contributions	<u>7,479,148</u>	<u>10,230,147</u>
	<u>\$50,347,647</u>	<u>\$51,102,427</u>

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, 2022, will be recognized in pension expense as follows:

Year Ending <u>September 30,</u>	
2023	\$ 1,939,836
2024	(64,902)
2025	(248,143)
2026	1,569,768
2027	(2,290,638)
Thereafter	<u>(3,857,949)</u>
	<u>\$ (2,952,028)</u>

Republic of Palau

Notes to Financial Statements, continued

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, 2022, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund:		
Grants Fund	\$ ---	\$ 2,000,000
Other governmental funds	---	2,103,555
Compact Section 211(f) Fund	<u>---</u>	<u>15,000,000</u>
	<u>---</u>	<u>19,103,555</u>
Grants Fund:		
General Fund	<u>2,000,000</u>	<u>---</u>
Compact Section Fund:		
General Fund	<u>15,000,000</u>	<u>---</u>
Other governmental funds:		
General Fund	<u>2,103,555</u>	<u>---</u>
	<u>\$19,103,555</u>	<u>\$19,103,555</u>

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

Republic of Palau

Notes to Financial Statements, continued

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	8,857,144	---	---	---	8,857,144
Loan receivable - PDHA	4,000,001	---	---	---	4,000,001
Loan receivable - PPUC	32,357,249	---	---	---	32,357,249
Loan receivable - BSCC	20,815,862	---	---	---	20,815,862
Permanent fund principal	---	---	251,068,367	---	251,068,367
	<u>67,222,221</u>	<u>---</u>	<u>251,068,367</u>	<u>---</u>	<u>318,290,588</u>
Restricted:					
Housing Development Loan Project	1,435,593	---	---	---	1,435,593
Health Expenditure and Livelihood Support	2,006,427	---	---	---	2,006,427
PPUC Reform Program (Subprogram 2)	250,000	---	---	---	250,000
Compact related	---	4,302,443	---	---	4,302,443
Other	---	<u>5,237,550</u>	---	---	<u>5,237,550</u>
	<u>3,692,020</u>	<u>9,539,993</u>	<u>---</u>	<u>---</u>	<u>13,232,013</u>
Committed:					
Protected Area Network	396,671	---	---	---	396,671
Financial Institutions Commission	324,960	---	---	---	324,960
Non-lapsing	5,757,529	---	---	---	5,757,529
Cyclical Reserve	3,694,867	---	---	---	3,694,867
ROC Capital Projects	---	1,301,163	---	---	1,301,163
Environmental protection	---	---	---	477,972	477,972
Hospital	---	---	---	5,942,729	5,942,729
Road maintenance	---	---	---	324,060	324,060
Publication law access unit	---	---	---	37,000	37,000
Forfeited property	---	---	---	177,820	177,820
Non-Communicable Diseases	---	---	---	3,191,776	3,191,776
Fisheries Protection	---	---	---	3,114,060	3,114,060
Other	---	---	---	<u>35,500</u>	<u>35,500</u>
	<u>10,174,027</u>	<u>1,301,163</u>	<u>---</u>	<u>13,300,917</u>	<u>24,776,107</u>
Unassigned	<u>21,405,392</u>	<u>(15,203)</u>	<u>---</u>	<u>(537)</u>	<u>21,389,652</u>
	<u>\$102,493,660</u>	<u>\$10,825,953</u>	<u>\$251,068,367</u>	<u>\$13,300,380</u>	<u>\$377,688,360</u>

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, 2022, amounted to \$12,104,684.

Federal Grants

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

Republic of Palau

Notes to Financial Statements, continued

13. Commitments and Contingencies, continued

Federal Grants, continued

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, 2022. 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, 2021. 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, 2022 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.

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, 2022, are as follows:

- a) Guaranteed bank debt of the National Development Bank of Palau (NDBP) with letters of guarantee. As of September 30, 2022, NDBP had guaranteed debt totaling \$5,571,402.

Republic of Palau

Notes to Financial Statements, continued

13. Commitments and Contingencies, continued

Debt Commitments, continued

- 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, 2022, NDBP had guaranteed debt associated with this loan totaling \$1,155,884.
- 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, 2022, PNCC had guaranteed debt totaling \$16,164,904.
- d) Guaranteed bank debt of the Palau Public Utilities Corporation (PPUC) with a letter of guarantee. As of September 30, 2022, PPUC had guaranteed debt totaling \$1,800,000.
- e) Guaranteed bank debt of the Belau Submarine Cable Corporation (BSCC) with letters of guarantee. As of September 30, 2022, BSCC had guaranteed debt totaling \$7,186,472.

Asian Development Bank (ADB) Loans

In 2014, the Republic entered into two loan agreements (Loan Number 3060-PAL and Loan Number 3061-PAL (SF)) with the Asian Development Bank in the combined amount of approximately \$28,800,000 for the Koror-Airai Sanitation Project. The proceeds are to be on lent to the Palau Public Utilities Corporation under a separate Financing Agreement for the purpose of financing sanitation infrastructure improvements identified in the Koror-Airai Sanitation Master Plan. As of September 30, 2022, the Republic had drawn down \$23,059,288 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 entered into 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, 2022, the Republic had drawn \$21,950,636 against these loans.

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.

Republic of Palau

Notes to Financial Statements, continued

13. Commitments and Contingencies, continued

Leases, continued

As of September 30, 2022, 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>	
2023	\$ 247,622
2024	247,622
2025	247,622
2026	247,622
2027	247,622
2028 - 2032	1,238,110
2033 - 2037	1,238,110
2038 - 2042	1,238,110
2043 - 2044	<u>497,992</u>
	<u>\$5,450,432</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, 2022, 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, 2022, PIAC Balance Sheet and Statement of Loss and Deficit are as follows:

Total assets	<u>\$42,477,896</u>
Total current liabilities	<u>\$ 2,061,148</u>
Total long-term debt	<u>\$26,996,755</u>
Total net shareholder's equity	<u>\$14,723,427</u>
Total liabilities and shareholder's equity	<u>\$43,781,330</u>
Revenues	<u>\$ 1,233,075</u>
Operating expenses and other expenses	<u>\$ 4,757,547</u>
Deficit at beginning of year	<u>\$(2,851,140)</u>
Deficit at end of year	<u>\$(6,375,612)</u>

Republic of Palau

Notes to Financial Statements, continued

15. Subsequent Events

On September 15, 2022, the Republic entered into 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. Loan proceeds were received on October 17, 2022.

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 entered into a \$12,500,000 loan (Loan Number 4448 PAL (COL)) with the ADB for the purpose of strengthening tax and customs administration systems.

Republic of Palau

REQUIRED SUPPLEMENTARY INFORMATION

Year ended September 30, 2022

Republic of Palau

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund (Fund 1000) Year ended September 30, 2022 (Unaudited)

	Original Budget	Final Budget	Actual - Budgetary Basis (see note 1)	Variance
Revenues:				
Local revenue	\$ 51,164,000	\$ 56,468,767	\$ 51,595,780	\$(4,872,987)
Net change in the fair value of investments	---	---	18,711	18,711
Total revenues	<u>51,164,000</u>	<u>56,468,767</u>	<u>51,614,491</u>	<u>(4,854,276)</u>
Expenditures - budgetary basis:				
Office of the President	1,205,338	1,604,393	1,390,452	213,941
Office of the Vice-President	524,552	524,552	501,734	22,818
Ministry of Finance	4,645,664	9,929,152	9,570,619	358,533
Ministry of State	3,861,290	3,737,290	3,504,959	232,331
Ministry of Human Resources, Culture, Tourism and Development	1,522,000	1,522,000	1,190,633	331,367
Ministry of Education	8,674,500	9,274,500	8,702,430	572,070
Ministry of Public Infrastructure and Industries	7,042,827	7,218,827	5,935,345	1,283,482
Ministry of Justice	5,641,145	5,891,145	5,481,637	409,508
Ministry of Health and Human Services	10,176,000	10,676,000	10,457,078	218,922
Ministry of Agriculture, Fisheries and the Environment	1,217,445	1,217,445	1,071,424	146,021
Boards, Commissions and Authorities	1,163,818	1,133,818	975,540	158,278
Judicial Branch	2,873,000	2,973,000	2,973,000	---
Legislative Branch	5,448,760	5,648,860	5,480,261	168,599
State Block Grants	9,256,000	9,256,000	9,213,000	43,000
Independent Agencies	2,900,524	3,000,524	2,697,130	303,394
Other Agencies and Activities	1,686,000	1,686,000	1,640,688	45,312
Education Assistance	3,568,000	3,568,000	3,568,000	---
Other Appropriations:				
OEK Office renovation	---	250,000	---	250,000
Palau Public Utilities Corporation	1,550,000	2,950,000	2,800,000	150,000
MOE renovation projects	---	213,000	---	213,000
Debt service payments	---	2,887,424	2,816,624	70,800
Total expenditures	<u>72,956,863</u>	<u>85,161,930</u>	<u>79,970,554</u>	<u>5,191,376</u>
Deficiency of revenues under expenditures	(21,792,863)	(28,693,163)	(28,356,063)	337,100
Other financing sources (uses):				
Loan proceeds	13,000,000	13,000,000	8,687,937	(4,312,063)
Operating transfers in	17,461,000	24,579,300	19,397,255	(5,182,045)
Operating transfers out	(9,107,000)	(9,325,000)	(10,096,579)	(771,579)
Total other financing sources (uses), net	<u>21,354,000</u>	<u>28,254,300</u>	<u>17,988,613</u>	<u>(10,265,687)</u>
	(438,863)	(438,863)	(10,367,450)	(9,928,587)
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	438,863	438,863	157,698	(281,165)
Net change in fund balance	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$(10,209,752)</u>	<u>\$(10,209,752)</u>

Republic of Palau

Notes to Required Supplementary Information - Budgetary Reporting

September 30, 2022
(Unaudited)

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 2022, RPPL No. 11-12, was passed by the OEK on September 14, 2021. 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

	Net Change in <u>Fund Balance</u>
General Fund (Fund 100100):	
Budgetary basis	\$(10,209,752)
GASB 54 Funds included within the General Fund:	
PAN Fund (Fund 1010)	227,395
Financial Institutions Commission Fund (Fund 1030)	65,918
Non-Lapsing Fund (Fund 1140)	3,049,669
Receivable Fund (Fund 1160)	5,222
Cyclical Reserve Fund (Fund 2000)	(875,280)
Climate Resilience Reserve Fund (Fund 2010)	539,860
Debt Service Fund (Fund 5000)	(87,783)
Scholarship Fund (Fund 1100)	(4,864)
Compact Section 213 Fund (Fund 1150)	(1,010,811)
Local CIP Fund (Fund 4000)	(236,460)
	<u>1,672,866</u>
	\$(8,536,886)

Republic of Palau

OTHER SUPPLEMENTARY INFORMATION

Year ended September 30, 2022

Republic of Palau

Schedule of the Proportionate Share of the Net Pension Liability 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>
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, 2022

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, 2022

		1100	1150
	General	Scholarship	Compact Section 213
<u>ASSETS</u>			
Cash and cash equivalents	\$ 43,163,054	\$ ---	\$ ---
Investments	4,335,001	---	5,427,373
Receivables, net:			
Taxes	4,121,585	---	---
General	1,495,711	---	---
Due from component units	66,030,256	---	---
Due from other funds	34,476,052	---	---
Advances	44,182	---	---
Prepaid items	89,686	---	---
Other assets	1,191,965	---	---
Total assets	<u>\$ 154,947,492</u>	<u>\$ ---</u>	<u>\$ 5,427,373</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>(DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ 2,910,833	\$ 1,697	\$ ---
Contracts payable	41,437	---	---
Retention payable	14,229	---	---
Due to State governments	765,730	---	---
Due to other funds	56,050,850	72,321	---
Accrued payroll and others	2,813,871	2,037	---
Deferred revenue	90,651	---	---
Other liabilities and accruals	642,236	---	---
Income tax refunds	804,205	---	---
Total liabilities	<u>64,134,042</u>	<u>76,055</u>	<u>---</u>
Fund balances (deficit):			
Nonspendable	67,222,221	---	---
Restricted	3,692,020	---	---
Committed	10,174,027	---	---
Unassigned	9,725,182	(76,055)	5,427,373
Total fund balances (deficit)	<u>90,813,450</u>	<u>(76,055)</u>	<u>5,427,373</u>
Total liabilities and fund balances (deficit)	<u>\$ 154,947,492</u>	<u>\$ ---</u>	<u>\$ 5,427,373</u>

Republic of Palau

GENERAL FUND

Combining Balance Sheet, Continued

September 30, 2022

	4000		
	Local CIP	Elimination	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ ---	\$ ---	\$ 43,163,054
Investments	---	---	9,762,374
Receivables, net:			
Taxes	---	---	4,121,585
General	---	---	1,495,711
Due from component units	---	---	66,030,256
Due from other funds	6,388,592	(29,811,085)	11,053,559
Advances	---	---	44,182
Prepaid items	---	---	89,686
Other assets	---	---	1,191,965
Total assets	<u>\$ 6,388,592</u>	<u>\$(29,811,085)</u>	<u>\$ 136,952,372</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>(DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ ---	\$ ---	\$ 2,912,530
Contracts payable	38,313	---	79,750
Retention payable	21,387	---	35,616
Due to State governments	---	---	765,730
Due to other funds	---	(29,811,085)	26,312,086
Accrued payroll and others	---	---	2,815,908
Unearned revenues	---	---	90,651
Other liabilities and accruals	---	---	642,236
Income tax refunds	---	---	804,205
Total liabilities	<u>59,700</u>	<u>(29,811,085)</u>	<u>34,458,712</u>
Fund balances (deficit):			
Nonspendable	---	---	67,222,221
Restricted	---	---	3,692,020
Committed	---	---	10,174,027
Unassigned	6,328,892	---	21,405,392
Total fund balances (deficit)	<u>6,328,892</u>	<u>---</u>	<u>102,493,660</u>
Total liabilities and fund balances (deficit)	<u>\$ 6,388,592</u>	<u>\$(29,811,085)</u>	<u>\$ 136,952,372</u>

Republic of Palau

GENERAL FUND

Combining Statement of Revenues, Expenditures By Function, and Changes in Fund Balance (Deficit)

Year ended September 30, 2022

		1100	1150
	General	Scholarship	Compact Section 213
Taxes	\$ 39,450,030	\$ ---	\$ ---
Net change in the fair value of investments	(646,288)	---	(1,010,811)
Fees and charges	4,467,237	---	---
Licenses and permits	11,486,240	656,053	---
Other	1,925,971	25,247	---
Total revenues	56,683,190	681,300	(1,010,811)
Expenditures:			
Current:			
Judicial Branch	2,973,000	---	---
Legislative Branch	5,469,265	---	---
Office of the President	1,383,900	---	---
Office of the Vice-President	501,045	---	---
Ministry of Finance	9,541,933	---	---
Ministry of State	5,734,210	---	---
Ministry of Human Resources, Culture, Tourism and Development	1,305,889	---	---
Ministry of Education	8,704,882	---	---
Ministry of Public Infrastructure and Industries	6,637,659	---	---
Ministry of Justice	5,969,293	---	---
Ministry of Health and Human Services	11,897,169	---	---
Ministry of Agriculture, Fisheries and the Environment	1,070,979	---	---
Boards, Commissions, and Authorities	1,102,523	---	---
State Block Grants	9,353,000	---	---
Independent Agencies	2,690,235	---	---
Payments to component units	3,526,394	---	---
Other Agencies and Activities	4,246,872	---	---
Education Assistance	3,568,000	2,689,164	---
Capital projects	---	---	---
Debt service:			
Principal retirement	4,693,429	---	---
Interest	1,616,756	---	---
Total expenditures	91,986,433	2,689,164	---
Excess (deficiency) of revenues over (under) expenditures	(35,303,243)	(2,007,864)	(1,010,811)
Other financing sources (uses):			
Loan proceeds	10,917,937	---	---
Operating transfers in	28,630,609	2,003,000	---
Operating transfers out	(11,530,054)	---	---
Total other financing sources (uses), net	28,018,492	2,003,000	---
Net change in fund balances (deficit)	(7,284,751)	(4,864)	(1,010,811)
Fund balances (deficit) at beginning of year	98,098,201	(71,191)	6,438,184
Fund balances (deficit) at end of year	\$ 90,813,450	\$(76,055)	\$ 5,427,373

Republic of Palau

GENERAL FUND

Combining Statement of Revenues, Expenditures By Function, and Changes in Fund Balance (Deficit), Continued

Year ended September 30, 2022

	4000		
	Local		
	CIP	Elimination	Total
Revenues:			
Taxes	\$ ---	\$ ---	\$ 39,450,030
Net change in the fair value of investments	---	---	(1,657,099)
Fees and charges	---	---	4,467,237
Licenses and permits	---	---	12,142,293
Other	---	---	1,951,218
Total revenues	---	---	56,353,679
Expenditures:			
Current:			
Judicial Branch	---	---	2,973,000
Legislative Branch	---	---	5,469,265
Office of the President	---	---	1,383,900
Office of the Vice-President	---	---	501,045
Ministry of Finance	---	---	9,541,933
Ministry of State	---	---	5,734,210
Ministry of Human Resources, Culture, Tourism and Development	---	---	1,305,889
Ministry of Education	---	---	8,704,882
Ministry of Public Infrastructure and Industries	---	---	6,637,659
Ministry of Justice	---	---	5,969,293
Ministry of Health and Human Services	---	---	11,897,169
Ministry of Agriculture, Fisheries and the Environment	---	---	1,070,979
Boards, Commissions, and Authorities	---	---	1,102,523
State Block Grants	---	---	9,353,000
Independent Agencies	---	---	2,690,235
Payments to component units	---	---	3,526,394
Other Agencies and Activities	---	---	4,246,872
Education Assistance	---	---	6,257,164
Capital projects	236,460	---	236,460
Debt service:			
Principal retirement	---	---	4,693,429
Interest	---	---	1,616,756
Total expenditures	236,460	---	94,912,057
Excess (deficiency) of revenues over (under) expenditures	(236,460)	---	(38,558,378)
Other financing sources (uses):			
Loan proceeds	---	---	10,917,937
Operating transfers in	---	(11,530,054)	19,103,555
Operating transfers out	---	11,530,054	---
Total other financing sources (uses), net	---	---	30,021,492
Net change in fund balances (deficit)	(236,460)	---	(8,536,886)
Fund balances (deficit) at beginning of year	6,565,352	---	111,030,546
Fund balances (deficit) at end of year	\$ 6,328,892	\$ ---	\$ 102,493,660

Republic of Palau

Grants Fund

September 30, 2022

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, 2022

	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	\$ 146	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 146
Receivables, net:										
General	---	---	262	---	33,929	---	1,268,998	---	---	1,303,189
Federal agencies	---	---	10,304,682	---	---	1,825,036	---	---	1,435,017	13,564,735
Due from other funds	1,128,568	3,188,783	---	1,405,618	8,333,819	---	1,125,761	1,445	---	15,183,994
Advances	---	---	34,526	9,970	12,176	---	---	---	---	56,672
Prepaid items	---	---	231,070	10,397	33,317	---	7,755	---	---	282,539
Total assets	<u>\$ 1,128,714</u>	<u>\$ 3,188,783</u>	<u>\$ 10,570,540</u>	<u>\$ 1,425,985</u>	<u>\$ 8,413,241</u>	<u>\$ 1,825,036</u>	<u>\$ 2,402,514</u>	<u>\$ 1,445</u>	<u>\$ 1,435,017</u>	<u>\$ 30,391,275</u>
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ ---	\$ ---	\$ 817,674	\$ 49,454	\$ 164,182	\$ ---	\$ 11,497	\$ ---	\$ ---	\$ 1,042,807
Contracts payable	---	14,290	---	73,098	24,442	607,278	1,479,201	---	---	2,198,309
Retention payable	---	---	---	---	---	117,866	904,536	---	---	1,022,402
Unearned revenues	---	---	1,122,130	---	2,985,780	---	---	1,445	---	4,109,355
Due to other funds	---	---	8,529,665	---	---	1,088,340	---	---	1,435,017	11,053,022
Accrued payroll and others	---	764	104,274	3,924	24,839	---	5,626	---	---	139,427
Total liabilities	<u>---</u>	<u>15,054</u>	<u>10,573,743</u>	<u>126,476</u>	<u>3,199,243</u>	<u>1,813,484</u>	<u>2,400,860</u>	<u>1,445</u>	<u>1,435,017</u>	<u>19,565,322</u>
Fund balances:										
Restricted	1,128,714	3,173,729	---	---	5,225,998	11,552	---	---	---	9,539,993
Committed	---	---	---	1,299,509	---	---	1,654	---	---	1,301,163
Unassigned	---	---	(3,203)	---	(12,000)	---	---	---	---	(15,203)
Total fund balances	<u>1,128,714</u>	<u>3,173,729</u>	<u>(3,203)</u>	<u>1,299,509</u>	<u>5,213,998</u>	<u>11,552</u>	<u>1,654</u>	<u>---</u>	<u>---</u>	<u>10,825,953</u>
Total liabilities and fund balances	<u>\$ 1,128,714</u>	<u>\$ 3,188,783</u>	<u>\$ 10,570,540</u>	<u>\$ 1,425,985</u>	<u>\$ 8,413,241</u>	<u>\$ 1,825,036</u>	<u>\$ 2,402,514</u>	<u>\$ 1,445</u>	<u>\$ 1,435,017</u>	<u>\$ 30,391,275</u>

Republic of Palau

GRANTS FUND

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

Year ended September 30, 2022

	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	\$ ---	\$ 2,453,734	\$ 34,697,924	\$ ---	\$ ---	\$ 5,814,699	\$ ---	\$ ---	\$ 1,385,341	\$ ---	\$ 44,351,698
Net change in the fair value of investments	927	---	---	---	---	---	---	---	---	---	927
Other grants	---	---	---	1,330,100	10,476,953	---	13,240,640	8,985	---	---	25,056,678
Total revenues	927	2,453,734	34,697,924	1,330,100	10,476,953	5,814,699	13,240,640	8,985	1,385,341	---	69,409,303
Expenditures:											
Current:											
Ministry of Human Resources, Culture, Tourism and Development	---	---	117,521	5,130	36,536	---	---	---	---	---	159,187
Ministry of Education	---	---	2,494,721	44,671	157,147	---	---	---	---	---	2,696,539
Ministry of Public Infrastructure and Industries	---	1,216,124	724,020	204,197	1,924,598	5,814,699	3,742,087	---	1,030,566	---	14,656,291
Ministry of Justice	1,178,619	---	32,417	10,000	437,016	---	561,726	8,985	---	---	2,228,763
Ministry of Health and Human Services	---	---	10,590,390	(298,088)	181,161	---	948,082	---	---	---	11,421,545
Ministry of Agriculture, Fisheries and the Environment	---	---	102,113	8,887	409,633	---	---	---	---	---	520,633
State Governments	---	---	---	28,727	---	---	6,262,591	---	46,106	---	6,337,424
Other	---	---	20,492,415	1,882,350	1,667,650	---	1,726,153	---	308,669	---	26,077,237
Total expenditures	1,178,619	1,216,124	34,553,597	1,885,874	4,813,741	5,814,699	13,240,639	8,985	1,385,341	---	64,097,619
Excess (deficiency) of revenues over (under) expenditures	(1,177,692)	1,237,610	144,327	(555,774)	5,663,212	---	1	---	---	---	5,311,684
Other financing sources (uses):											
Operating transfers in	---	600,000	---	---	---	---	---	---	---	(600,000)	---
Operating transfers out	---	---	---	---	(2,600,000)	---	---	---	---	600,000	(2,000,000)
Total other financing sources (uses), net	---	600,000	---	---	(2,600,000)	---	---	---	---	---	(2,000,000)
Net change in fund balances	(1,177,692)	1,837,610	144,327	(555,774)	3,063,212	---	1	---	---	---	3,311,684
Fund balances at beginning of year	2,306,406	1,336,119	(147,530)	1,855,283	2,150,786	11,552	1,653	---	---	---	7,514,269
Fund balances at end of year	\$ 1,128,714	\$ 3,173,729	\$ (3,203)	\$ 1,299,509	\$ 5,213,998	\$ 11,552	\$ 1,654	\$ ---	\$ ---	\$ ---	\$ 10,825,953

Republic of Palau

Permanent Fund

September 30, 2022

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 general public.

Republic of Palau
Permanent Funds
Combining Balance Sheet
September 30, 2022

	6000	3020	
	<u>Compact</u>	<u>Infrastructure</u>	
	<u>Section 211(f)</u>	<u>Maintenance</u>	<u>Total</u>
<u>ASSETS</u>			
Restricted assets:			
Investments	\$ <u>246,142,625</u>	\$ <u>4,925,742</u>	\$ <u>251,068,367</u>
Total assets	\$ <u><u>246,142,625</u></u>	\$ <u><u>4,925,742</u></u>	\$ <u><u>251,068,367</u></u>
<u>FUND BALANCES</u>			
Restricted	\$ <u>246,142,625</u>	\$ <u>4,925,742</u>	\$ <u>251,068,367</u>
Total fund balances	\$ <u><u>246,142,625</u></u>	\$ <u><u>4,925,742</u></u>	\$ <u><u>251,068,367</u></u>

Republic of Palau

Permanent Funds

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

Year ended September 30, 2022

	6000	3020	
	Compact Section 211(f)	Infrastructure Maintenance	Total
Revenues:			
Net change in the fair value of investments	\$(56,399,639)	\$(917,472)	\$(57,317,111)
Other financing uses:			
Operating transfers out	(15,000,000)	---	(15,000,000)
Net change in fund balances	(71,399,639)	(917,472)	(72,317,111)
Fund balances at beginning of year	317,542,264	5,843,214	323,385,478
Fund balances at end of year	\$ 246,142,625	\$ 4,925,742	\$ 251,068,367

Republic of Palau

Nonmajor Governmental Funds - Special Revenue Funds

September 30, 2022

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

Drug Fine Collection Fund - This fund accounts for receipt of drug fines to be used to supplement rewards offered by the Crime Stoppers program for information regarding drug-related crimes and for the operation of drug treatment and counseling programs.

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

Hospital Trust Fund - This fund accounts for receipt of hospital fee collections. Of the amount collected, all funds are to be used at the direction of the Minister of Health exclusively for medical and pharmaceutical supplies except collections from medical referral patients shall apply to future medical referrals.

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

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

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

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

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

Republic of Palau

Nonmajor Governmental Funds - Special Revenue Funds, continued

September 30, 2022

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

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

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

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

Republic of Palau

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

Combining Balance Sheet

September 30, 2022

	1020	1040	1050	1060	1070	1200	1080	1090	1110	1120	1130	1210	1220	
	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	Universal Access	Total
<u>ASSETS</u>														
Receivables, net:														
General	\$ ---	\$ ---	\$ 1,240	\$ ---	\$ ---	\$ ---	\$ ---	\$ 46,384	\$ (20)	\$ ---	\$ ---	\$ ---	\$ ---	\$ 47,604
Due from other funds	---	181,683	6,233,699	3,191,968	38,233	---	11,711	707,314	478,820	259,265	17,225	---	8,174	11,128,092
Investments	---	---	---	---	---	---	---	2,379,593	---	---	---	---	---	2,379,593
Prepaid items	---	2,600	18,542	---	---	---	---	---	---	70,260	---	---	---	91,402
Total assets	<u>\$ ---</u>	<u>\$ 184,283</u>	<u>\$ 6,253,481</u>	<u>\$ 3,191,968</u>	<u>\$ 38,233</u>	<u>\$ ---</u>	<u>\$ 11,711</u>	<u>\$ 3,133,291</u>	<u>\$ 478,800</u>	<u>\$ 329,525</u>	<u>\$ 17,225</u>	<u>\$ ---</u>	<u>\$ 8,174</u>	<u>\$ 13,646,691</u>
<u>LIABILITIES AND FUND BALANCES</u>														
<u>(DEFICIT)</u>														
Liabilities:														
Accounts payable	\$ ---	\$ 6,463	\$ 310,752	\$ 192	\$ 1,233	\$ ---	\$ 1,610	\$ 19,231	\$ 828	\$ 1,696	\$ ---	\$ ---	\$ ---	\$ 342,005
Due to other funds	537	---	---	---	---	---	---	---	---	---	---	---	---	537
Accrued payroll and others	---	---	---	---	---	---	---	---	---	3,769	---	---	---	3,769
Total liabilities	<u>537</u>	<u>6,463</u>	<u>310,752</u>	<u>192</u>	<u>1,233</u>	<u>---</u>	<u>1,610</u>	<u>19,231</u>	<u>828</u>	<u>5,465</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>346,311</u>
Fund balances (deficit):														
Committed	---	177,820	5,942,729	3,191,776	37,000	---	10,101	3,114,060	477,972	324,060	17,225	---	8,174	13,300,917
Unassigned	(537)	---	---	---	---	---	---	---	---	---	---	---	---	(537)
Total fund balances (deficit)	<u>(537)</u>	<u>177,820</u>	<u>5,942,729</u>	<u>3,191,776</u>	<u>37,000</u>	<u>---</u>	<u>10,101</u>	<u>3,114,060</u>	<u>477,972</u>	<u>324,060</u>	<u>17,225</u>	<u>---</u>	<u>8,174</u>	<u>13,300,380</u>
Total liabilities and fund balances	<u>\$ ---</u>	<u>\$ 184,283</u>	<u>\$ 6,253,481</u>	<u>\$ 3,191,968</u>	<u>\$ 38,233</u>	<u>\$ ---</u>	<u>\$ 11,711</u>	<u>\$ 3,133,291</u>	<u>\$ 478,800</u>	<u>\$ 329,525</u>	<u>\$ 17,225</u>	<u>\$ ---</u>	<u>\$ 8,174</u>	<u>\$ 13,646,691</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, 2022

	1020	1040	1050	1060	1070	1200	1080	1090	1110	1120	1130	1210	1220	
	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	Universal Access	Total
Revenues:														
Taxes	\$ ---	\$ ---	\$ ---	\$ 1,089,583	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 799,135	\$ ---	\$ ---	\$ ---	\$ 1,888,718
Fees and charges	150	4,305	2,045,994	---	6,550	---	67,230	---	11,625	---	18,074	---	8,174	2,162,102
Net change in the fair value of investments	---	---	---	---	---	---	---	649,091	---	---	---	---	---	649,091
Licenses and permits	---	---	3,850	---	---	---	---	---	---	---	---	---	---	3,850
Total revenues	150	4,305	2,049,844	1,089,583	6,550	---	67,230	649,091	11,625	799,135	18,074	---	8,174	4,703,761
Expenditures:														
Current:														
Ministry of State	---	---	---	---	27,991	---	---	---	---	---	---	---	---	27,991
Ministry of Justice	---	115,665	---	---	---	---	13,450	---	---	---	---	---	---	129,115
Ministry of Health and Human Services	---	---	1,684,094	587,895	---	---	---	---	---	---	---	---	---	2,271,989
Ministry of Agriculture, Fisheries and the Environment	---	---	---	---	---	---	---	1,353,475	12,501	---	14,841	---	---	1,380,817
Ministry of Public Infrastructure and Industries	---	---	---	---	---	---	---	---	---	353,370	---	---	---	353,370
Total expenditures	---	115,665	1,684,094	587,895	27,991	---	13,450	1,353,475	12,501	353,370	14,841	---	---	4,163,282
Excess (deficiency) of revenues over (under) expenditures	150	(111,360)	365,750	501,688	(21,441)	---	53,780	(704,384)	(876)	445,765	3,233	---	8,174	540,479
Other financing uses:														
Operating transfers out	---	---	---	(49,775)	---	---	(53,780)	---	---	(2,000,000)	---	---	---	(2,103,555)
Net change in fund balances	150	(111,360)	365,750	451,913	(21,441)	---	---	(704,384)	(876)	1,554,235	3,233	---	8,174	(1,563,076)
Fund balances (deficit) at beginning 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
Fund balances (deficit) at end of year	\$ (537)	\$ 177,820	\$ 5,942,729	\$ 3,191,776	\$ 37,000	\$ ---	\$ 10,101	\$ 3,114,060	\$ 477,972	\$ 324,060	\$ 17,225	\$ ---	\$ 8,174	\$ 13,300,380

Republic of Palau

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

Year ended September 30, 2022

	Original	Final	Actual	Variance
Revenues:				
Local revenue	\$ 51,164,000	\$ 56,468,767	\$ 51,595,780	\$(4,872,987)
Net change in the fair value of investments	---	---	18,711	18,711
Total revenues	51,164,000	56,468,767	51,614,491	(4,854,276)
Expenditures - budgetary basis:				
Office of the President:				
President's Office	843,338	969,338	962,907	6,431
Official Expenses	23,000	23,000	15,175	7,825
Indirect Cost Recoveries	---	259,055	98,314	160,741
Administrative Overhead	---	14,000	13,977	23
Grants Coordinator Office	68,000	68,000	53,625	14,375
National Security	90,000	90,000	70,906	19,094
Council of Chiefs	136,000	136,000	130,548	5,452
Presidential Stipend	45,000	45,000	45,000	---
Total Office of the President	1,205,338	1,604,393	1,390,452	213,941
Office of the Vice-President:				
Vice-President's Office	291,552	291,552	282,006	9,546
National Emergency Management Office	233,000	233,000	219,728	13,272
Total Office of the Vice-President	524,552	524,552	501,734	22,818
Ministry of Finance:				
Office of the Minister	58,000	58,000	57,972	28
Cross Act	---	5,046,514	4,882,061	164,453
PPEF Payments	261,000	261,000	163,415	97,585
Administrative Overhead	408	57,382	49,225	8,157
Information System Support Service	216,000	216,000	213,282	2,718
Division of Finance and Accounting	555,000	573,000	569,732	3,268
Division of Property and Supply	186,000	186,000	184,637	1,363
Division of Treasury	135,000	145,000	160,998	(15,998)
Division of Grants	54,000	56,000	52,739	3,261
Office of Budget and Management	239,000	251,000	250,651	349
Office of Planning and Statistics	233,000	228,000	219,810	8,190
Office of PALARIS	165,000	166,000	165,481	519
Office of Climate Change	20,000	12,000	6,801	5,199
Division of Customer Service	623,256	654,256	645,302	8,954
Division of Processing	26,000	20,000	18,057	1,943
Division of Audit and Compliance	46,000	35,000	33,376	1,624
Division of Debts and Returns	26,000	12,000	10,217	1,783
Division of Revenue and Trade Facilitation	957,800	1,097,800	1,042,208	55,592
Division of Immigration	641,700	646,700	639,396	7,304
Division of Biosecurity	202,500	207,500	205,259	2,241
Total Ministry of Finance	4,645,664	9,929,152	9,570,619	358,533
Ministry of State:				
Office of the Minister	58,000	58,000	57,439	561
Southwest Islands Field Trips	279,000	279,000	279,000	---
United Nations Representative Office	350,000	350,000	345,484	4,516
Consulate Office in Guam	116,470	106,470	91,798	14,672
Embassy in Washington D.C.	292,000	276,000	260,688	15,312
Embassy in Tokyo, Japan	664,000	624,000	620,532	3,468
Embassy in Taipei, Taiwan	230,000	210,000	188,017	21,983
Embassy in Manila, Philippines	136,000	130,000	121,147	8,853
International Organizations Obligations	311,000	311,000	311,000	---
Office of the Public Defender	327,000	327,000	284,800	42,200
Passport Office	99,000	95,000	74,228	20,772
ROP Consulate Office Hawaii	65,000	65,000	58,580	6,420
Office of Administration of Domestic Affairs	60,150	80,150	71,925	8,225

Republic of Palau

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

Year ended September 30, 2022

	Original	Final	Actual	Variance
Expenditures - budgetary basis, continued:				
Ministry of State, continued:				
Division of State and Community Affairs	100,000	90,000	63,102	26,898
Division of Media and Information Services	---	---	2,259	(2,259)
Division of Gender and Social Inclusion	20,000	2,000	---	2,000
Division of Bilateral Affairs	---	---	3,834	(3,834)
Division of Multilateral Affairs	---	---	467	(467)
Division of Protocol	110,000	110,000	103,826	6,174
Bureau of Foreign Affairs	225,670	217,670	210,530	7,140
Division of U.S. North, Central and South Affairs	---	26,000	25,299	701
Division of Africa, Caribbean and EU Affairs	---	14,000	13,214	786
Division of UN and Pacific Affairs	---	29,000	28,805	195
Division of East Asian Affairs	90,000	29,000	27,302	1,698
Division of Protocol	---	---	5,254	(5,254)
Bureau of Archives and Research	158,000	138,000	110,553	27,447
Division of Media and Information Services	170,000	170,000	145,876	24,124
Total Ministry of State	3,861,290	3,737,290	3,504,959	232,331
Ministry of Community and Cultural Affairs:				
Office of the Minister	---	---	533	(533)
Bureau of Cultural and Historical Preservation	57,000	58,000	56,581	1,419
Division of Archeology	78,000	80,000	79,950	50
Division of Ethnography	67,000	64,000	61,039	2,961
Bureau of Human Resources	244,300	395,000	245,255	149,745
Division of Employment Services	95,000	130,000	126,536	3,464
Division of Youth, Applied Arts and Career	335,700	150,000	128,970	21,030
Division of Youth, Sports and Recreation	---	---	7,460	(7,460)
Division of Commerce	69,000	69,000	59,194	9,806
Division of Compliance	80,000	80,000	47,775	32,225
Office of Labor Compliance	351,000	351,000	245,591	105,409
Youth Congress	5,000	5,000	---	5,000
Mechesil Belau	50,000	50,000	50,000	---
Other Program Cultural and Tourism	5,000	5,000	---	5,000
Office of the Minister	58,000	58,000	57,972	28
Olchotel Belau Fair	27,000	27,000	23,777	3,223
Total Ministry of Community and Cultural Affairs	1,522,000	1,522,000	1,190,633	331,367
Ministry of Education:				
Office of the Minister	58,000	58,000	57,959	41
School Books, Supplies and Instructional Equipment	593,000	593,000	282,115	310,885
Food Services Program	946,000	1,146,000	978,275	167,725
Bureau of Curriculum and Instruction	458,000	508,000	507,882	118
Division of Research and Evaluation	111,500	111,500	111,313	187
Division of Personnel Management	60,000	60,000	59,710	290
Division of School Management Administration	140,000	140,000	139,747	253
Bureau of Education Administration	1,032,000	1,382,000	1,371,965	10,035
Palau High School	1,478,000	1,478,000	1,505,894	(27,894)
Aimeliik Elementary School	221,000	221,000	207,249	13,751
Airai Elementary School	293,000	293,000	267,438	25,562
Angaur Elementary School	103,000	103,000	103,204	(204)
Kayangel Elementary School	82,000	82,000	82,685	(685)
Koror Elementary School	799,000	799,000	777,702	21,298
Melekeok Elementary School	244,000	244,000	232,264	11,736
Ngaraad Elementary School	219,000	219,000	219,781	(781)
Ngarchelong Elementary School	212,000	212,000	207,936	4,064
Ngaremlengui Elementary School	187,000	187,000	197,081	(10,081)
Ngardmau Elementary School	163,000	163,000	154,581	8,419
Ibobang Elementary School	109,000	109,000	111,955	(2,955)
Peleliu Elementary School	244,000	244,000	230,287	13,713

Republic of Palau

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

Year ended September 30, 2022

	Original	Final	Actual	Variance
Expenditures - budgetary basis, continued:				
Ministry of Education, continued:				
Sonsorol Elementary School	34,000	34,000	35,175	(1,175)
Hatohebei Elementary School	27,000	27,000	26,558	442
Harris Elementary School	528,000	528,000	502,387	25,613
Meyuns Elementary School	302,000	302,000	301,655	345
Poluana Elementary School	31,000	31,000	29,632	1,368
Total Ministry of Education	8,674,500	9,274,500	8,702,430	572,070
Ministry of Public Infrastructure, Industry and Commerce:				
Office of the Minister	58,000	58,000	57,439	561
FAA, UNDP, & Other Match	354,000	319,000	1,900	317,100
Bureau of Communication	135,000	135,000	125,219	9,781
Bureau of Marine Transportation	197,000	236,350	204,096	32,254
Palau Ship Registry	45,000	5,650	---	5,650
Palau Small Business Development (UOG)	---	---	55,000	(55,000)
Bureau of Aviation - Airport Operations	1,765,767	1,765,767	1,208,135	557,632
Bureau of Aviation - ARFF Operations	602,000	602,000	558,904	43,096
Land Surveyors Office	672,000	672,000	658,151	13,849
Land Registration	140,000	140,000	131,397	8,603
Sports Facilities Maintenance and Utilities	84,600	84,600	81,361	3,239
CIP Office Operations	180,000	180,000	107,221	72,779
Public Works Administration	339,400	274,400	324,480	(50,080)
Division of Facilities and Maintenance	195,000	195,000	118,629	76,371
Division of Roads and Maintenance	610,000	610,000	546,060	63,940
Division of Capital Improvement Projects	80,000	80,000	64,983	15,017
Palau Energy Administration	135,060	135,060	88,929	46,131
National Capitol Electricity/Maintenance	1,450,000	1,726,000	1,603,441	122,559
Total Ministry of Public Infrastructure, Industry and Commerce	7,042,827	7,218,827	5,935,345	1,283,482
Ministry of Justice:				
Office of the Attorney General	711,000	711,000	565,793	145,207
Juvenile Justice Program	21,000	36,000	35,202	798
Anti Human Trafficking Task Force	63,000	24,000	23,540	460
Bureau of Public Safety	219,000	420,500	322,715	97,785
Division of Criminal Investigations	372,000	396,100	382,018	14,082
Division of Patrol	1,359,145	1,351,645	1,335,537	16,108
Division of Fire Protection	632,000	616,900	613,836	3,064
Division of Corrections	667,000	665,000	660,838	4,162
Division of Transnational Crime	364,000	437,000	436,907	93
Division of Fish and Wildlife	356,000	356,000	346,376	9,624
Division of Marine Law Enforcement	877,000	877,000	756,040	120,960
Division of Labor	---	---	195	(195)
Division of Immigration	---	---	2,640	(2,640)
Total Ministry of Justice	5,641,145	5,891,145	5,481,637	409,508
Ministry of Health:				
Palau Severely Disabled Assistance Fund	498,000	724,000	722,050	1,950
Aging Administration	269,300	269,300	265,678	3,622
Family Protection Act	18,000	18,000	15,851	2,149
Elderly Homecare	27,000	27,000	26,633	367
Office of the Minister	58,000	53,000	51,308	1,692
Medical Supplies and Drugs	270,000	270,000	80,799	189,201
Hemodialysis	515,000	515,000	438,896	76,104
Hyperbaric Chamber	90,000	90,000	41,624	48,376
Health System Administration	3,233,500	3,612,500	3,782,166	(169,666)
Manila Medical Referral	---	---	233	(233)
Hawaii Medical Referral	---	---	11,060	(11,060)
Taipei Medical Referral	---	---	400	(400)

Republic of Palau

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

Year ended September 30, 2022

	Original	Final	Actual	Variance
Expenditures - budgetary basis, continued:				
Ministry of Health, continued:				
Public Health Administration	85,000	101,000	106,904	(5,904)
Division of Sanitation	279,400	236,400	236,114	286
Division of Behavioral Health	145,000	137,000	136,763	237
Division of Dental Health	500,000	465,000	464,722	278
Division of Primary and Preventive Health	182,000	152,000	151,573	427
Division of Oral Health	41,300	41,300	41,274	26
Clinical Services Administration	171,000	121,000	69,342	51,658
Division of Medical Services	1,100,900	1,100,900	1,078,595	22,305
Division of Ancillary Services	520,000	520,000	517,713	2,287
Public Health Nurses	625,000	625,000	593,220	31,780
Clinical Services Nurses	1,547,600	1,597,600	1,594,260	3,340
Other Program Health	---	---	29,900	(29,900)
Total Ministry of Health	10,176,000	10,676,000	10,457,078	218,922
Ministry of Natural Resources, Environment and Tourism:				
Office of the Minister	58,000	58,000	57,972	28
Bureau of Marine Resources	560,000	520,000	514,573	5,427
Bureau of Tourism	152,000	152,000	11,652	140,348
Bureau of Agriculture	447,445	487,445	487,227	218
Total Ministry of Natural Resources, Environment and Tourism	1,217,445	1,217,445	1,071,424	146,021
Total Executive Branch	44,510,761	51,595,304	47,806,311	3,788,993
Judicial Branch:				
Judiciary	2,873,000	2,973,000	2,973,000	---
Total Judicial Branch	2,873,000	2,973,000	2,973,000	---
Olbiil Era Kelulau:				
Senate	1,011,476	1,081,476	1,027,624	53,852
Senate Committees	432,000	462,000	439,752	22,248
Senate Legal Counsel Office	193,000	193,000	188,181	4,819
Senate Staff	645,000	625,000	620,844	4,156
House of Delegates	1,067,680	1,159,180	1,157,507	1,673
House of Delegates Vice Speaker Office	61,608	61,708	61,683	25
House of Delegates Floor Leader Office	61,608	63,608	62,427	1,181
House of Delegates Committees	715,104	709,604	662,830	46,774
House Legal Counsel Office	196,284	216,284	215,719	565
House of Delegates Staff	650,000	642,000	641,462	538
Joint Staff	310,000	330,000	329,775	225
Palau Japan Parliamentary Friendship	35,000	31,500	6,161	25,339
Electricity for Koror Olbiil Era Kelulau Building	30,000	37,500	37,353	147
Association of Pacific Island Legislatures	15,000	13,500	11,000	2,500
Inter-Parliamentary Union	15,000	13,500	11,965	1,535
Pacific Islands Development Bank	10,000	9,000	5,978	3,022
Total Legislative Branch	5,448,760	5,648,860	5,480,261	168,599
Boards, Commissions and Authorities:				
Foreign Investment Board	198,109	198,109	191,980	6,129
Palau Election Commission	277,000	267,000	215,448	51,552
COFA Board of Trustees	46,709	41,709	12,528	29,181
Palau Public Lands Authority	121,000	121,000	102,772	18,228
Parole Board	45,000	40,000	27,427	12,573
Palau Housing Authority	135,000	135,000	135,000	---
Financial Investigation Unit	159,000	159,000	156,718	2,282
Financial Institutions Commission	34,000	34,000	28,527	5,473

Republic of Palau

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

Year ended September 30, 2022

	Original	Final	Actual	Variance
Expenditures - budgetary basis, continued:				
Boards, Commissions and Authorities, continued:				
Ethics Commission	46,000	46,000	36,833	9,167
Palau Code Commission	53,000	48,000	35,104	12,896
Language Commission	49,000	44,000	33,203	10,797
Total Boards, Commissions and Authorities	1,163,818	1,133,818	975,540	158,278
State Block Grants	9,256,000	9,256,000	9,213,000	43,000
Independent Agencies:				
Office of the Public Auditor	553,000	553,000	373,131	179,869
Office of the Special Prosecutor	274,000	274,000	273,615	385
Palau Environmental Quality Protection Board	407,100	397,100	306,264	90,836
National Postal Service	400,000	420,000	414,489	5,511
Palau Visitors Authority	1,098,000	1,088,000	1,088,000	---
National Aviation Administration	168,424	268,424	241,631	26,793
Total Independent Agencies	2,900,524	3,000,524	2,697,130	303,394
Other Agencies and Activities:				
Palau International Coral Reef Center	360,000	360,000	360,000	---
Palau National Museum	234,000	234,000	233,881	119
Micronesia Legal Services	125,000	125,000	125,000	---
Palau Community Action Agency	273,000	273,000	273,000	---
Civic Action Team Share	250,000	250,000	250,000	---
Head Start Program	126,000	126,000	126,000	---
WIA Grant Contribution	84,000	84,000	53,662	30,338
Apprentice Program	50,000	50,000	50,000	---
PNOC and Sports Organizations	159,000	159,000	144,145	14,855
Palau Red Cross	25,000	25,000	25,000	---
Total Other Agencies and Activities	1,686,000	1,686,000	1,640,688	45,312
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	---
COM Board of Regents	25,000	25,000	25,000	---
PCC CRE	35,000	35,000	35,000	---
PCC Endowment Fund	75,000	75,000	75,000	---
PCC Navigation Program	50,000	50,000	50,000	---
Aid to Non-Public Schools	947,000	947,000	947,000	---
Tuition Assistance to Palauan Students	60,000	60,000	60,000	---
Total Education Assistance	3,568,000	3,568,000	3,568,000	---
Other Appropriations:				
OEK Office Renovation	---	250,000	---	250,000
Palau Public Utilities Corporation	1,550,000	2,950,000	2,800,000	150,000
MOE Renovation Projects	---	213,000	---	213,000
Debt Service payments	---	2,887,424	2,816,624	70,800
Total Other Appropriations	1,550,000	6,300,424	5,616,624	683,800
Total expenditures	72,956,863	85,161,930	79,970,554	5,191,376
Deficiency of revenues under expenditures	(21,792,863)	(28,693,163)	(28,356,063)	337,100

Republic of Palau

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

Year ended September 30, 2022

	Original	Final	Actual	Variance
Expenditures - budgetary basis, continued:				
Other financing sources (uses):				
Loan proceeds	13,000,000	13,000,000	8,687,937	(4,312,063)
Operating transfers in:				
Compact Section 211(f) Trust Fund	15,000,000	15,000,000	15,000,000	---
Grants Fund	---	2,400,000	2,600,000	200,000
PAN Fund	261,000	261,000	---	(261,000)
Non Lapsing Fund	2,200,000	6,918,300	1,543,475	(5,374,825)
Reserve Fund	---	---	200,000	200,000
Operator License Fund	---	---	53,780	53,780
Total other financing sources	<u>30,461,000</u>	<u>37,579,300</u>	<u>28,085,192</u>	<u>(9,494,108)</u>
Operating transfers out:				
National Scholarship Fund	(2,003,000)	(2,003,000)	(2,003,000)	---
Debt Service Fund	(3,471,000)	(3,471,000)	(3,471,000)	---
Nonlapsing Fund	(2,785,000)	(3,003,000)	(3,003,000)	---
Climate Resilience Fund	---	---	(539,860)	(539,860)
Reserve Fund	(848,000)	(848,000)	(1,079,719)	(231,719)
Total other financing uses	<u>(9,107,000)</u>	<u>(9,325,000)</u>	<u>(10,096,579)</u>	<u>(771,579)</u>
Total other financing sources (uses), net	<u>21,354,000</u>	<u>28,254,300</u>	<u>17,988,613</u>	<u>(10,265,687)</u>
	(438,863)	(438,863)	(10,367,450)	(9,928,587)
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	438,863	438,863	157,698	(281,165)
Net change in fund balance	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$(10,209,752)</u>	<u>\$(10,209,752)</u>