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

Republic of Palau

Year ended September 30, 2023
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, 2023

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Republic of Palau

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

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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, 2023, 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 41% of the assets and 37% 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

Opinion Unit	***Type of Opinion***
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, 2023, 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, 2023, 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. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, for the fiscal year ended September 30, 2023. This Statement improves financial reporting related to the determination of the public-private and public-public partnership (PPP) term and recognition and measurement of installment payments and the transfer of the underlying PPP assets.

As described in Note 1 to the financial statements, the Republic has not implemented GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, as of the end of the reporting period. As a result, assets, liabilities, and disclosures related to these 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 versus Actual - General Fund and notes thereto, on pages 106 and 107, the Schedule of the Proportionate Share of the Net Pension Liability, on page 108, and the Schedule of Pension Contributions, on page 109, 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 May 26, 2026 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.

Ernst + Young

May 26, 2026

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, 2023. We encourage readers to consider the information presented here in conjunction with the Republic's basic financial statements, which follow this section. Fiscal year 2022 comparative information has been included, where appropriate.

FINANCIAL HIGHLIGHTS

At the close of the most recent fiscal year, the Republic's assets and deferred outflows exceeded its liabilities and deferred inflows by $181.6 million (net position), an increase of $2.5 million (1.4%) from the prior year net position of $179.1 million. Of this amount, $131.1 million represents the Republic's investment in capital assets, and $295.5 million is restricted for various purposes. These amounts are offset by a remaining deficit of $245 million, which will be funded through future governmental activities.

During the current fiscal year, governmental activities incurred expenses of $155.3 million, which were partially funded by $65.5 million in program revenues and $53.3 million in taxes and other general revenues. Program revenues decreased by $25.8 million (28.3%), from $91.3 million in the prior year to $65.5 million, primarily due to a decline in grants and contributions. Taxes and other general revenues increased by $10.2 million (23.8%), from $43.1 million to $53.3 million, largely driven by an $8.4 million increase in tax receipts and a $1.8 million increase in other revenues.

Total expenses decreased by $8.2 million (5.0%), from $163.5 million in the prior year to $155.3 million. This decrease was mainly attributable to reduced spending in transportation and commerce and general government, partially offset by increased expenditures in public safety, cultural affairs and recreation, and interest payments.

The Compact Section 211(f) Trust Fund reported an increase in the fair value of investments of $38.5 million during the current fiscal year. After an appropriation of $15 million transferred to the General Fund for budgetary support, the trust fund balance increased by $23.5 million (9.5%), from $246.1 million in the prior year to $269.6 million.

For the current fiscal year, General Fund expenditures of $105.5 million were less than General Fund revenues and other financing sources of $123.9 million, resulting in an excess of $18.4 million. General Fund appropriations increased by $10.6 million (11.2%) compared with the prior year, primarily due to an $11.7 million increase in expenditures for other agencies, payments to component units, and loan interest. General Fund revenues and other financing sources increased by $37.6 million (43.5%) compared with the prior year, largely due to $31.5 million in loan proceeds from the Asian Development Bank received in 2023.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Republic's basic financial statements, which consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

This report also includes required supplementary information, such as a budgetary schedule prepared on the budgetary basis of accounting, as well as other supplementary information. In addition to the basic financial statements, this supplementary information includes combining statements for governmental funds, fiduciary funds, and other supporting schedules.

Government-wide Financial Statements

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

Together, these two government-wide financial statements report the Republic's net position and the changes in that position over time. Net position—the difference between the Republic's assets and liabilities—is one measure of the Republic's financial health.

- Over time, increases or decreases in net position may indicate whether the Republic's financial condition is improving or deteriorating.

- However, assessing the Republic's overall financial health also requires consideration of non-financial factors, such as changes in the tax base, the condition of roads and infrastructure, and the quality of public services.

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

- Primary government – This grouping comprises governmental activities, which include most of the Republic's basic services such as education, health and welfare, public safety, and general administration. These activities are financed primarily through Compact funding and other federal grants.

- Discretely presented component units – The Republic includes several legally separate entities in its report. These component units are presented separately because the Republic is financially accountable for them.

Fund Financial Statements

A fund is a grouping of related accounts 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 requirements.

- Some funds are established by legislation of the Olbiil Era Kelulau.

- Other funds are created by the Republic to control and manage resources for specific purposes (such as the Other Country Grants Fund) or to demonstrate proper use of certain grants (such as those reported in the U.S. Federal Grants and Other Assistance Funds).

All of the Republic's funds are classified into two categories: governmental and fiduciary.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide statements, governmental fund financial statements focus on the flow of financial resources into and out of the funds, as well as the balances available for spending at year-end. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash.

Governmental fund financial statements provide a detailed, short-term view of the Republic's general government operations and the basic services it provides. This information helps determine whether there are sufficient financial resources available in the near term to finance the Republic's programs.

Fiduciary funds – These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not included in the government-wide financial statements because their resources are not available to support the Republic's own programs. The Republic acts as trustee, or fiduciary, for these assets, which—due to trust arrangements—may be used only for the benefit of the designated beneficiaries. The Republic is responsible for ensuring that these resources are used in accordance with their intended purposes. All fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position.

Discretely presented component units – Financial statements are also presented for entities for which the Republic is financially accountable, but which operate independently of the Republic's core operations. Most of these entities function in a manner similar to private-sector businesses.

Notes to the Financial Statements

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

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

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

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

A FINANCIAL ANALYSIS OF THE REPUBLIC AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Republic, assets exceeded liabilities by $181.6 million at the close of the most recent fiscal year. However, this net position is either restricted for specific purposes or invested in capital assets.

The Republic uses its capital assets to provide services to citizens; accordingly, these assets are not available for future spending. Although the Republic's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, as the capital assets themselves cannot be used to liquidate the liabilities.

A significant portion of the Republic's net position is comprised of its investment in capital assets, net of long-term liabilities. Current assets and liabilities represent amounts available in the current period and obligations due within one year, respectively. At year-end, the Republic reported current assets of $101.7 million and current liabilities of $35.7 million. Restricted net position represents resources that are subject to external constraints on their use.

Net Position, continued

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

The Republic's Net Position
As of September 30

	Governmental Activities 2023	Governmental Activities 2022	Total $ Change 2023-2022	Total % Change 2023-2022
Current and other assets	$ 448,968,322	$ 402,095,573	$ 46,872,749	12%
Capital assets	134,434,805	138,773,572	(4,338,767)	(3)%
Total assets	**583,403,127**	**540,869,145**	**42,533,982**	**8%**
Deferred outflows of resources	**41,454,248**	**50,347,647**	**(8,893,399)**	**(18)%**
Long-term debt outstanding	176,524,514	150,798,805	25,725,709	17%
Current and other liabilities	189,662,169	210,174,897	(20,512,728)	(10)%
Total liabilities	**366,186,683**	**360,973,702**	**5,212,981**	**1%**
Deferred inflows of resources	**76,988,523**	**51,102,427**	**25,886,096**	**51%**
Net position:				
Net investment in capital assets	131,139,957	135,400,674	(4,260,717)	(3)%
Restricted	295,553,477	275,198,888	20,354,589	7%
Unrestricted	(245,011,265)	(231,458,899)	(13,552,366)	6%
Total net position	**$ 181,682,169**	**$ 179,140,663**	**$ 2,541,506**	**1%**

At the end of the current fiscal year, the Republic reported an unrestricted net position deficit of $245 million, an increase of $13.6 million (5.9%) from the prior year. This deficit reflects long-term obligations that exceed currently available resources, including the Republic's share of the net pension liability.

Specifically, prior annual budgets did not fully provide for future liabilities associated with loans from Mega International Commercial Bank (MICB) and the Asian Development Bank (ADB), as well as obligations for accrued but unused employee annual leave. The Republic plans to address these obligations in future budgets as they come due.

Changes in Net Position

As noted earlier, the net position of the primary government increased by $2.5 million, or 1.4%, from the prior year balance of $179.1 million. This increase indicates an overall improvement in the Republic's financial condition, primarily attributable to the rise in the fair value of the Compact Trust Fund.

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 2023	Governmental Activities 2022	Total $ Change 2023-2022	Total % Change 2023-2022
Revenues:				
Program revenues:				
Charges for services	$ 22,589,109	$ 18,775,482	$ 3,813,627	20%
Operating grants and contributions	29,530,963	48,958,711	(19,427,748)	(40)%
Capital grants and contributions	13,338,982	23,558,992	(10,220,010)	(43)%
	65,459,054	91,293,185	(25,834,131)	(28)%
General revenues:				
Taxes	49,747,075	41,338,748	8,408,327	20%
Other general revenues	3,605,800	1,767,602	1,838,198	104%
	53,352,875	43,106,350	10,246,525	24%
Total revenues	**118,811,929**	**134,399,535**	**(15,587,606)**	**(12)%**
Expenses:				
General government	56,231,451	69,695,170	(13,463,719)	(19)%
Education	19,511,480	19,461,581	49,899	0%
Health and welfare	30,265,155	29,014,930	1,250,225	4%
Public safety	11,735,843	9,904,697	1,831,146	18%
Cultural affairs and recreation	3,860,813	1,906,844	1,953,969	102%
Transportation and commerce	12,347,083	15,231,899	(2,884,816)	(19)%
State government appropriationsJustic	13,779,118	15,690,424	(1,911,306)	(12)%
Depreciation - unallocated	949,409	949,409	-	0%
Interest	6,599,243	1,616,756	4,982,487	308%
Total expenses	**155,279,595**	**163,471,710**	**(8,192,115)**	**(5)%**
	(36,467,666)	**(29,072,175)**	**(7,395,491)**	25%
Increase (decrease) in permanent funds	39,009,172	(57,317,111)	96,326,283	(168)%
Change in net position	**2,541,506**	**(86,389,286)**	**88,930,792**	**103%**
Net position, beginning of year	**179,140,663**	**265,529,949**	**(86,389,286)**	**(33)%**
Net position, end of year	**$ 181,682,169**	**$ 179,140,663**	**$ 2,541,506**	**1%**

Changes in Net Position, continued

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

- Total revenues decreased by $15.6 million (11.6%) compared with the previous year. Program revenues declined by $25.8 million (28.3%), while general revenues increased by $10.2 million (23.8%), primarily due to the implementation of the new tax reform program.

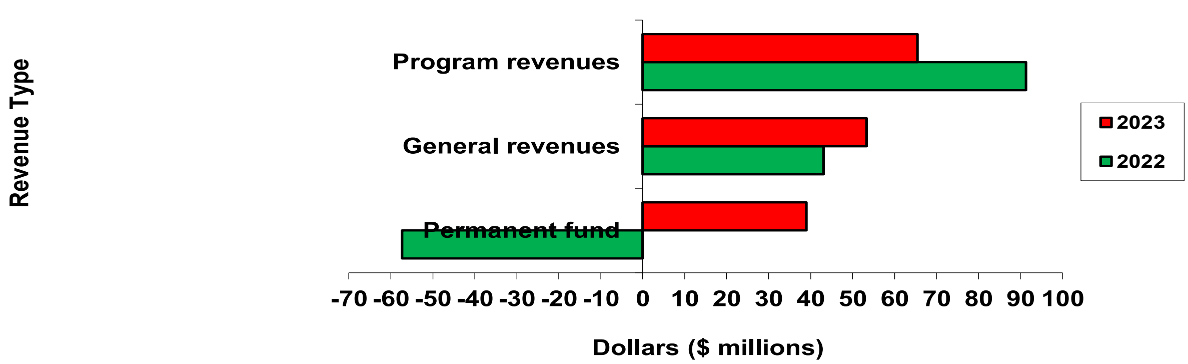
  The decrease in program revenues was driven by a $19.4 million (39.7%) reduction in operating grants and contributions and a $10.2 million (43.4%) decrease in capital grants and contributions, partially offset by a $3.8 million (20.3%) increase in charges for services. The decline in grants and contributions reflects reduced donor funding for COVID-19 mitigation efforts and airport improvement projects.

- At the same time, the cost of governmental activities decreased by $8.2 million (5%) compared with the prior year, primarily due to lower general government operational costs.

- The Compact Section 211(f) Trust Fund reduction of $57.3 million in the prior year increased by $96.3 million in the current year, primarily due to favorable market conditions that positively impacted the fair value of 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:

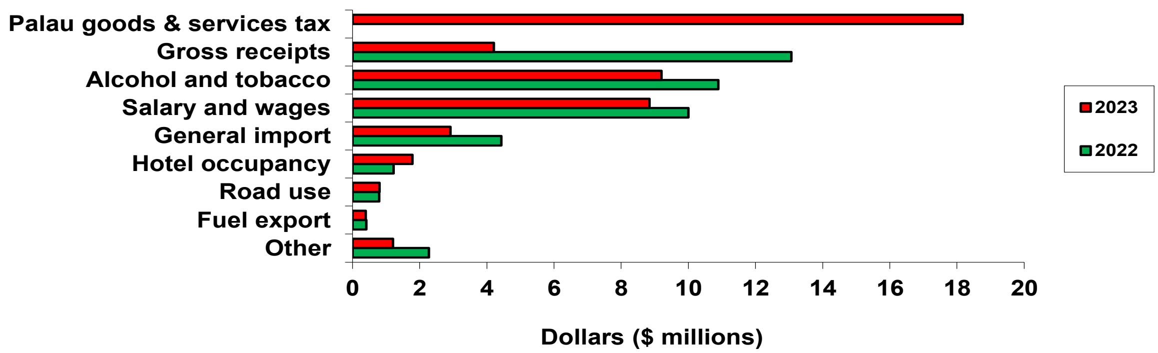
Graph 1
The Republic's Revenues
For the Years Ended September 30



Changes in Net Position, continued

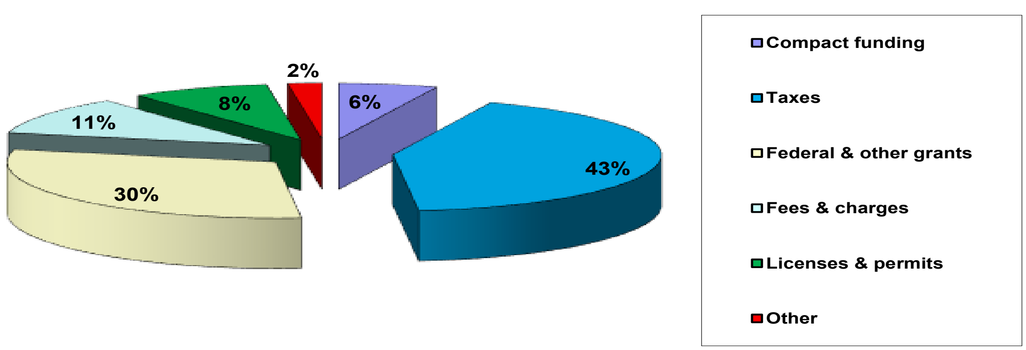
A significant portion of the Republic's general revenues is derived from tax collections. Tax revenues totaled $49.7 million in the current year, an increase from $41.3 million in the prior year. A graphical summary comparing the Republic's tax revenue collections for the current and prior years is presented below:

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 costs of governmental activities.

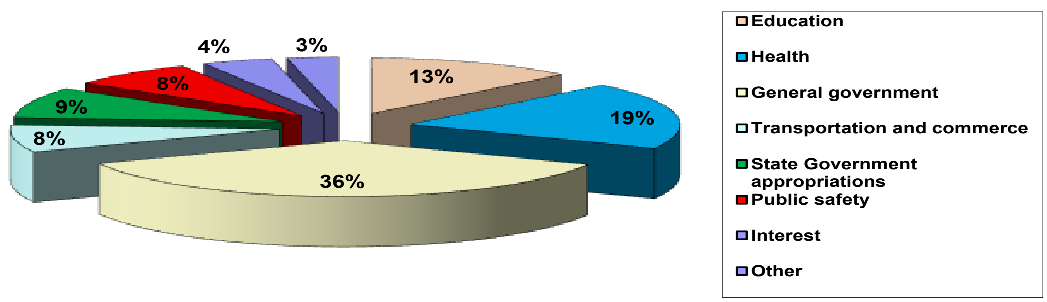
Graph 3
The Republic's Revenue Sources
For the Year Ended September 30, 2023



Changes in Net Position, continued

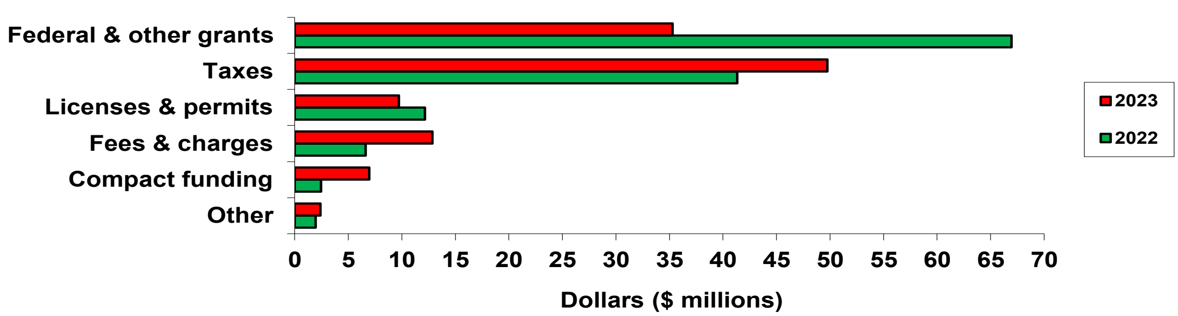
Compact funding, local taxes, and federal and other grants remain the primary sources of revenue for the Republic, which comprise 79% of total revenues in the current fiscal year. The remaining 21% consists mainly of various license fees and other service charges. Other expenses that make up a portion of the cost of governmental activities include state government appropriations of $13.8 million, unallocated depreciation expense of $0.9 million, and interest expense of $6.6 million.

Graph 4
The Republic's Cost of Governmental Activities
For the Year Ended September 30, 2023



Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2023 and 2022.

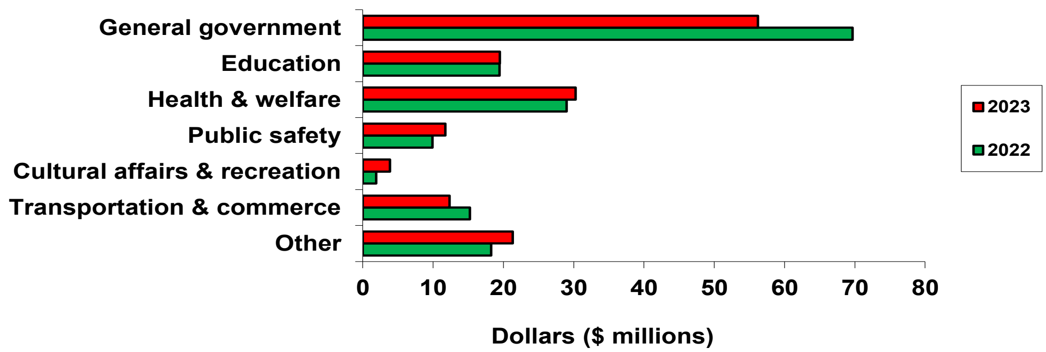
Graph 5
The Republic's Revenue Sources
For the Years Ended September 30



As previously discussed, total revenues decreased by $15.6 million (or 11.6%) compared with the previous year due primarily to a decrease in program revenues of $25.8 million (or 28.3%) compared with the previous year.

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 totaling $13.8 million, a decrease of $1.9 million from the prior year. Overall cost of governmental activities decreased by $8.2 million (or 5%) 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. This information is useful in assessing the Republic's short-term financing requirements. Unassigned fund balance may also serve as a useful indicator of the government's available resources at year-end.

At the end of the current fiscal year, the Republic's governmental funds reported a combined ending fund balance of $416 million, an increase of $38.3 million (10.1%) compared with the prior year. Of this amount, $340.2 million is classified as non-spendable and is not available for spending because it is either not in a spendable form or is subject to legal or contractual constraints. An additional $19.3 million is restricted for specific purposes due to externally imposed requirements, while $19.7 million is committed for specific purposes based on internal constraints. The combined unassigned fund balance totaled $36.9 million.

Governmental Funds, continued

The General Fund, the Republic's primary operating fund, reported an unassigned fund balance of $37.3 million at year-end. Total fund balance for the General Fund was $120.9 million, compared with $102.5 million in the prior fiscal year.

The Compact Section 211(f) Trust Fund reported a total fund balance of $269.6 million, all of which is restricted for the future funding of primary government operations. The fund balance increased by $23.5 million (9.5%) during the year, reflecting a $38.5 million increase in the fair value of investments, partially offset by a $15 million transfer to the General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, budget revisions totaling $8.6 million were approved by management and elected officials of the Republic for the General Fund budget. Actual revenues collected, including other financing sources, of $101.2 million exceeded the budgeted amount of $95.5 million.

In addition, charges to appropriations, including other financing uses, totaled $92.7 million, which was below the budgeted amount of $95.7 million. This variance was primarily due to lower-than-budgeted expenditures in the executive branch and other appropriations, which totaled $46.7 million and $35.7 million, respectively, compared with budgeted amounts of $48.5 million and $37.2 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Republic's investment in capital assets for its governmental activities as of September 30, 2023, totaled $544 million, including $33.2 million in land and construction in progress. After accumulated depreciation of $409.6 million, the net book value was $134.4 million. This represents a decrease of $4.3 million from the prior year's balance of $138.7 million. The Republic's capital assets include machinery and equipment, vehicles, infrastructure, roads, bridges, buildings, land, and various construction projects in progress.

Capital Assets, continued

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

	Governmental Activities 2023	Governmental Activities 2022	Total $ Change 2023-2022	Total % Change 2023-2022
Buildings and other improvements	$ 52,519,577	$ 57,553,001	$ (5,033,424)	(9)%
Machinery and equipment	27,805,280	31,271,887	(3,466,607)	(11)%
Vehicles	2,046,468	1,918,661	127,807	7%
Infrastructure	18,867,215	19,239,470	(372,255)	(2)%
Land	3,899,403	3,899,403	-	0%
Construction in progress	29,296,862	24,891,150	4,405,712	18%
Total	**$ 134,434,805**	**$ 138,773,572**	**$ (4,338,767)**	**(3)%**

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

- Ongoing construction in progress of the following infrastructure projects:

Infrastructure Project	Current Year Additions ($ millions)	Total To Date ($ millions)
New Correctional Facility	$ 0.36	$ 3.69
One Stop Shop Ph1	$ 3.17	$ 9.38
Angaur Dock Project (COFA)	$ 0.00	$ 2.33
Airport Runway Drainage Project	$ 0.68	$ 7.96
Airport Seal Pavement Surface Project	$ 0.00	$ 1.09
UN Office Building	$ 0.60	$ 4.43
Ngardmau Elementary School	$ 0.01	$ 0.01
GBH Elementary School	$ 0.13	$ 0.13
Meyuns Elementary Cafeteria	$ 0.27	$ 0.27

- Completion of the following infrastructure projects:

Infrastructure Project	Current Year Additions ($ millions)	Completed Cost ($ millions)
Aimeliik-COFA Road	$ 0.26	$ 0.26
Aimeliik-Mongami Road	$ 0.23	$ 0.23
Aimeliik-Nekken Road	$ 0.35	$ 0.35
Airai-Oikull Road	$ 0.64	$ 0.64
Melekeok Road	$ 0.45	$ 0.45

Capital Assets, continued

Ngaraard Road	$ 0.54	$ 0.54
Ngatpang Road	$ 0.65	$ 0.65
Ngchesar Road	$ 0.50	$ 0.50
Ngiwal Road	$ 0.20	$ 0.20

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 seventeen separate loans with the Mega International Commercial Bank (MICB) and the Asian Development bank (ADB). Long-term debt obligations increased by $25.7 million (17.1%) 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 2023	Governmental Activities 2022	Total $ Change 2023-2022	Total % Change 2023-2022
Asian Development Bank:				
Water Sector Improvement # 1	$ 3,953,390	$ 5,283,731	$ (1,330,341)	(25)%
Water Sector Improvement # 2	2,107,661	2,222,818	(115,157)	(5)%
Koror-Airai Sanitation Project # 1	19,600,228	20,752,000	(1,151,772)	(6)%
Koror-Airai Sanitation Project # 2	1,481,908	1,502,664	(20,756)	(1)%
North Pacific Regional Connectivity Investment # 1	13,943,342	13,768,751	174,591	1%
North Pacific Regional Connectivity Investment # 2	6,747,331	6,467,370	279,961	4%
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	-	0%
Recovery through Improved Systems Support # 3	30,000,000	-	30,000,000	
Mega International Commercial Bank:				
Palau International Airport Repaving Project	685,756	1,142,897	(457,141)	(40)%
Agriculture and Aquaculture Development Project	3,571,430	3,857,143	(285,713)	(7)%
Housing Project	3,714,287	4,000,001	(285,714)	(7)%
Housing Loan	13,714,290	14,571,430	(857,140)	(6)%
Mortgage Note:				
UN Mission Office loan	2,151,950	2,230,000	(78,050)	(4)%
International Cooperation Development Fund:				
Women and Youth Entrepreneurs	4,852,941	5,000,000	(147,059)	(3)%
Total	**$ 176,524,514**	**$ 150,798,805**	**$ 25,725,709**	**17%**

Long-term Debt, continued

As noted above, total long-term debt increased by $25.7 million (17.1%) during the current year, reflecting $31.5 million in new long-term debt, partially offset by principal repayments of $4.1 million on ADB debt and $1.9 million on MICB debt. The new debt issuances included $30 million in ADB financing to support the Republic's financial management reforms and COVID-19 recovery efforts.

Additional information on the Republic's long-term debt is provided in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Tourist arrivals of 35,052 in FY2023 was almost four times more than the 9,247 that visited the year before. All tourist groups rebounded led by Taiwan, USA and then China - in that order. Total arrivals were still less than half of the 89,379 visitors that arrived in FY2019. Economic growth was positive in FY2023 due to tourism recovery, but construction activity was low during the year, and GDP grew by only 0.6% in FY2023, up from 0.1% in FY2022.

Inflation remained high this year at 10.8%, slightly lower from 13.2% in FY2022 but enough to slow economic growth. Price pressures continue to persist after the pandemic due to higher import and shipping prices though these are expected to gradually reduce to 6% in FY2024 and to 2% over the next two years. Palau's high reliance on imports makes domestic prices susceptible to global shocks: global commodity prices, transportation costs and supply chain bottlenecks.

Palau's reliance on tourism creates important challenges as tourism is also highly susceptible to global economic and financial conditions. The Republic continued to work in FY2023 on increasing flights from key destinations to grow and diversify the tourism sector with tourist arrivals expected to double in FY2024 and recover to pre-pandemic numbers over the next two years. Two events were also significant to strengthening economic growth in 2023 and onwards.

First, the Republic's comprehensive tax reform was implemented in January 2023. The introduction of the Palau Goods and Services Tax and Business Income Tax was, on the whole, successful. Tax collections are expected to grow commensurate with the economy with the first full-year implementation in FY2024. The other significant event in FY2023 was the conclusion of negotiations on the Compact of Free Association with the United States of America. Unfortunately, funding under the new agreement would be available in FY2024 due to required U.S. Congressional approval. This funding will provide much needed budgetary support, buffers for disasters, capital expenditure, and funding for debt repayment acceleration over the next 20 years.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET, CONTINUED

Palau continued to provide lifeline utility service subsidy program for low-income households and other subsidies to vulnerable groups it its FY2023 Budget. FY2023 Employment at 10,661 persons remained lower than pre-pandemic numbers of 11,441 (FY2019) for both Citizens and Foreign Workers. Employment increase in FY2023 was influenced by the opening of new retail establishment. There has been some difficulty in recruiting foreign labor for various reasons. Lower employment growth for foreign workers this year was affected by a delay in tourism business recovery and lag times required in the foreign labor hiring process. Employment overall is expected to grow slowly due in part to emigration pressures on Palau's Citizen population experienced since the Pandemic.

Despite the previous contractions in Palau's economy, in FY2023 Palau's GNI per capita grew to $14,316. Palau concessional grants and terms are affected by the World Bank's threshold for high income country status from both multilateral and bilateral donors. External debt/ GDP ratio of 79.2% remained high in FY2023 compared to 71.9% in FY2021 and FY2022 at 70.8%.

This ratio is expected to further improve as the economy recovers; however, debt service is expected to rise as Palau starts making payments towards principal on loans taken during the pandemic.

The eventual FY2023 Budget ceiling was higher than original estimates due to better than expected tax collections. Palau was cautious in spending due to the uncertainty in tourism recovery, regional instability and uncertainty, finalization of COFA Agreement, and untested tax reforms. Recovery was prioritized for expenditure in FY2023 but funds for the cyclical and climate resilience funds were provided as required by law. Palau continued to show fiscal restraint in FY2023 though funding subsidies to SOEs, transfers to state governments, and supporting social insurance and pension sector. The Civil Service Pension Plan and Social Security Fund remain significant fiscal risks to Palau. Work continues to find an acceptable political but sustainable solution for this challenge.

Longer-term economic growth will be targeted through implementation of a high value tourism strategy and spending on new infrastructure. Contributions from tourism are planned to be higher per person than previously experienced. Construction demand is projected to grow strongly in the medium-term reflecting a large pool of projects in the pipeline. Construction is anticipated to be a major contributor to economic growth in the post pandemic era. Palau will continue to exercise fiscal responsibility. Debt repayment and infrastructure investment will be supported by the Palau Goods and Services Tax (PGST) and COFA grants resulting in a favorable improvement of fiscal outturn over the medium to long term.

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 Ministry of Finance, P.O. Box 6011, Koror, Republic of Palau 96940.

Republic of Palau

Statement of Net Position

September 30, 2023

	Primary Government	Component Units
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39,170,088	$ 26,983,314
Investments	33,349,580	4,639,165
Receivables, net of allowance for uncollectibles	22,274,361	12,919,211
Inventories	---	14,186,809
Due from component units	3,112,225	---
Prepaid expenses and other assets	1,460,775	4,004,306
Restricted assets:		
Cash and cash equivalents	2,370,648	---
Total current assets	101,737,677	62,732,805
Noncurrent assets:		
Investments	---	1,889,601
Receivables	---	35,039,624
Capital assets:		
Nondepreciable capital assets	33,196,265	17,770,598
Capital assets, net of accumulated depreciation	101,238,540	93,653,981
Indefeasible right of use	---	5,088,788
Foreclosed real estate	---	347,188
Due from component units	60,799,242	---
Right-to-Use lease assets	10,161,899	711,677
Other noncurrent assets	1,191,965	2,203,182
Restricted assets:		
Cash and cash equivalents	---	3,925,980
Investments	275,077,539	7,746,475
Total noncurrent assets	481,665,450	168,377,094
Total assets	583,403,127	231,109,899
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pensions	41,454,248	18,658,443
	$ 624,857,375	$ 249,768,342
LIABILITIES		
Current liabilities:		
Current portion of long-term obligations	$ 7,197,922	$ 2,287,190
Current portion of compensated absences payable	2,677,782	---
Accounts payable	5,394,743	12,354,486
Contracts payable	2,603,183	---
Retention payable	453,780	---
Due to State governments	911,350	---
Due to primary government	---	3,406,536
Due to fiduciary funds	---	416,466
Accrued payroll and others	4,048,357	2,869,591
Unearned revenue	3,596,807	14,278,979
Lease liability	2,237,618	---
Other liabilities	1,311,181	1,753,460
Income tax refunds	5,291,349	---
Total current liabilities	35,724,072	37,366,708
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	169,326,592	21,960,995
Compensated absences payable, net of current portion	3,032,876	---
Net pension liability	158,103,143	54,269,132
Due to primary government	---	60,504,931
Due to fiduciary funds	---	577,016
Total noncurrent liabilities	330,462,611	137,312,074
Total liabilities	366,186,683	174,678,782
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions	76,988,523	22,077,260
Commitments and contingencies		
NET POSITION		
Net investment in capital assets	131,139,957	49,144,113
Restricted for:		
Future operations	275,077,539	---
Endowment	---	8,269,207
Debt service	---	250,472
Compact related	7,165,271	---
Other purposes	13,310,667	14,030,213
Unrestricted	(245,011,265)	(18,681,705)
Total net position	181,682,169	53,012,300
	$ 624,857,375	$ 249,768,342

See accompanying notes.

Republic of Palau

Statement of Activities

Year ended September 30, 2023

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Primary Government	Net (Expenses) Revenues and Changes in Net Position: Component Units
Primary government:						
Governmental activities:						
General government	$ 56,231,451	$ 20,130,493	$ 7,225,708	$ 7,229,759	$(21,645,491)	$ ---
Education	19,511,480	936,997	2,712,709	---	(15,861,774)	---
Health and welfare	30,265,155	1,457,529	12,091,716	6,042	(16,709,868)	---
Public safety	11,735,843	64,090	1,529,403	299,122	(9,843,228)	---
Cultural affairs and recreation	3,860,813	---	---	---	(3,860,813)	---
Transportation and commerce	12,347,083	---	5,971,427	5,804,059	(571,597)	---
State government appropriations	13,779,118	---	---	---	(13,779,118)	---
Depreciation - unallocated	949,409	---	---	---	(949,409)	---
Interest (unallocated)	6,599,243	---	---	---	(6,599,243)	---
Total primary government	$ 155,279,595	$ 22,589,109	$ 29,530,963	$ 13,338,982	(89,820,541)	---
Component units:						
National Development Bank of Palau	$ 3,079,354	$ 2,316,752	$ ---	$ ---	---	(762,602)
Palau Community College	9,449,354	1,505,726	5,518,221	---	---	(2,425,407)
Palau Housing Authority	440,530	204,155	---	---	---	(236,375)
Palau International Coral Reef Center	2,511,688	431,891	1,337,057	---	---	(742,740)
Palau National Communications Corporation	15,455,545	10,868,017	75,000	---	---	(4,512,528)
Palau Visitors Authority	2,290,852	737,738	1,098,000	---	---	(455,114)
Palau Public Utilities Corporation	39,968,198	33,638,450	499,624	---	---	(5,830,124)
Protected Areas Network Fund	1,268,371	---	671,863	---	---	(596,508)
Belau Submarine Cable Corporation	3,188,660	3,172,962	---	---	---	(15,698)
Total component units	$ 77,652,552	$ 52,875,691	$ 9,199,765	$ ---	---	(15,577,096)
General revenues:						
Taxes:						
Palau goods and services					18,162,211	---
Alcohol and tobacco					9,197,186	---
Salary and wage					8,847,076	---
Business gross receipts					4,205,412	---
General import					2,917,646	---
Business profits					2,219,915	---
Hotel occupancy					1,789,435	---
Road use					807,763	---
Fuel export					395,500	---
Other					1,204,931	---
Unrestricted investment earnings					1,207,025	2,385,037
Contributions from primary government					---	4,160,364
Other					2,398,775	1,109,990
Total general revenues					53,352,875	7,655,391
Contributions to permanent funds					39,009,172	---
Total general revenues and contributions					92,362,047	7,655,391
Change in net position					2,541,506	(7,921,705)
Net position at beginning of year					179,140,663	60,934,005
Net position at end of year					$ 181,682,169	$ 53,012,300

Republic of Palau

Balance Sheet
Governmental Funds

September 30, 2023

	General	Special Revenue Grants	Permanent Funds	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	$ 39,170,088	$ ---	$ ---	$ ---	$ 39,170,088
Investments	30,680,155	---	---	2,669,425	33,349,580
Receivables, net:					
Taxes	4,001,233	---	---	---	4,001,233
General	2,009,815	1,628,596	---	125,273	3,763,684
Federal agencies	---	14,509,444	---	---	14,509,444
Due from component units	63,911,467	---	---	---	63,911,467
Due from other funds	11,042,938	11,012,905	---	8,767,427	30,823,270
Advances	189,030	54,388	---	---	243,418
Prepaid items	169,108	951,713	---	96,536	1,217,357
Other assets	1,191,965	---	---	---	1,191,965
Restricted assets:					
Cash and cash equivalents	2,370,648	---	---	---	2,370,648
Investments	---	---	275,077,539	---	275,077,539
	$ 154,736,447	$ 28,157,046	$ 275,077,539	$ 11,658,661	$ 469,629,693
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 2,939,646	$ 1,228,063	$ ---	$ 1,227,034	$ 5,394,743
Contracts payable	422,312	2,180,871	---	---	2,603,183
Retention payable	19,548	434,232	---	---	453,780
Due to State governments	911,350	---	---	---	911,350
Due to other funds	19,780,332	8,946,518	---	2,096,420	30,823,270
Accrued payroll and others	3,086,611	159,164	---	3,455	3,249,230
Unearned revenues	67,205	3,529,602	---	---	3,596,807
Other liabilities and accruals	1,311,181	---	---	---	1,311,181
Income tax refunds	5,291,349	---	---	---	5,291,349
Total liabilities	33,829,534	16,478,450	---	3,326,909	53,634,893
Fund balances:					
Nonspendable	65,103,432	---	275,077,539	---	340,180,971
Restricted	9,333,725	9,960,859	---	---	19,294,584
Committed	9,158,987	1,732,940	---	8,782,139	19,674,066
Unassigned:					
General fund	37,310,769	---	---	---	37,310,769
Special revenue funds	---	(15,203)	---	(450,387)	(465,590)
Total fund balances	120,906,913	11,678,596	275,077,539	8,331,752	415,994,800
	$ 154,736,447	$ 28,157,046	$ 275,077,539	$ 11,658,661	

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		134,434,805
Right to Use in governmental activities are not financial resources and, therefore, are not reported in the funds		10,161,899
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	(176,524,514)	
Compensated absences	(5,710,658)	
Lease liability	(2,237,618)	
Accrued interest payable	(799,127)	
Net pension liability	(158,103,143)	
		(343,375,060)
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		41,454,248
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		(76,988,523)
Net position of governmental activities		$ 181,682,169

See accompanying notes.

Republic of Palau

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

Year ended September 30, 2023

	General	Special Revenue Grants	Permanent Compact	Other Governmental Funds	Total
Revenues:					
Taxes	$ 48,013,579	$ ---	$ ---	$ 1,733,496	$ 49,747,075
Federal and other grants	---	42,234,197	---	---	42,234,197
Net change in the fair value of investments	917,193	---	39,009,172	289,832	40,216,197
Fees and charges	10,839,064	---	---	2,013,499	12,852,563
Licenses and permits	9,730,201	---	---	6,345	9,736,546
Other	2,398,775	---	---	---	2,398,775
Total revenues	71,898,812	42,234,197	39,009,172	4,043,172	157,185,353
Expenditures:					
Current:					
Judicial Branch	2,864,161	---	---	---	2,864,161
Legislative Branch	5,748,498	---	---	---	5,748,498
Office of the President	1,300,428	1,485,028	---	---	2,785,456
Office of the Vice-President	513,247	6,864	---	---	520,111
Ministry of Finance	8,036,566	3,950,098	---	---	11,986,664
Ministry of State	3,901,413	719,203	---	---	4,620,616
Ministry of Human Resources, Culture, Tourism and Development	1,644,268	1,860,260	---	---	3,504,528
Ministry of Education	9,111,813	2,712,709	---	---	11,824,522
Ministry of Public Infrastructure and Industries	6,872,313	4,674,055	---	381,673	11,928,041
Ministry of Justice	6,471,861	2,957,239	---	37,449	9,466,549
Ministry of Health and Human Services	11,480,675	12,097,758	---	4,392,068	27,970,501
Ministry of Agriculture, Fisheries and the Environment	1,366,551	1,971,427	---	88,395	3,426,373
Boards, Commissions, and Authorities	1,125,241	---	---	23,009	1,148,250
State Governments	8,369,729	5,409,389	---	---	13,779,118
Independent Agencies	2,835,214	130,773	---	60,383	3,026,370
Payments to Component Units	6,916,583	1,702,714	---	---	8,619,297
Other Agencies and Activities	7,955,950	45,923	---	132,548	8,134,421
Education assistance	6,651,903	---	---	---	6,651,903
Debt service:					
Principal retirement	6,124,492	---	---	---	6,124,492
Interest	6,241,454	---	---	---	6,241,454
Total expenditures	105,532,360	39,723,440	---	5,115,525	150,371,325
Excess (deficiency) of revenues over (under) expenditures	(33,633,548)	2,510,757	39,009,172	(1,072,353)	6,814,028
Other financing sources (uses):					
Loan proceeds	31,492,412	---	---	---	31,492,412
Operating transfers in	20,554,389	1,200,000	---	---	21,754,389
Operating transfers out	---	(2,858,114)	(15,000,000)	(3,896,275)	(21,754,389)
Total other financing sources (uses), net	52,046,801	(1,658,114)	(15,000,000)	(3,896,275)	31,492,412
Net change in fund balances	18,413,253	852,643	24,009,172	(4,968,628)	38,306,440
Fund balances at beginning of year	102,493,660	10,825,953	251,068,367	13,300,380	377,688,360
Fund balances at end of year	$ 120,906,913	$ 11,678,596	$ 275,077,539	$ 8,331,752	$ 415,994,800

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, 2023

Net change in fund balances - total governmental funds		$38,306,440
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	$10,038,559	
Depreciation expense, net	(14,377,326)	
		(4,338,767)
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	$(31,492,412)	
Payment of ICDF loan	147,059	
Payment of mortgage note payable	78,050	
Repayment of MICB loans	1,885,708	
Repayment of ADB loan	4,091,638	
		(25,289,957)
Foreign exchange loss on SDR revaluation		(435,752)
Long-term prepayments are not reported in the governmental funds:		
Additional prepayment	$ 880,000	
Amortization	(358,232)	
		521,768
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	$(374,804)	
Net pension activity	(5,847,422)	
		(6,222,226)
Change in net position of governmental activities.		$ 2,541,506

Republic of Palau

Statement of Fiduciary Net Position
Fiduciary Funds

September 30, 2023

	Custodial	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
ASSETS				
Cash and cash equivalents	$ 472,651	$ 3,496,995	$ 502,180	$ 4,471,826
Receivables, net	---	3,785,423	2,334,715	6,120,138
Investments	---	100,213,182	23,635,636	123,848,818
Due from component units	---	993,482	---	993,482
Prepaid items	---	8,624	---	8,624
Capital assets, net	---	491,782	4,269	496,051
Total assets	472,651	108,989,488	26,476,800	135,938,939
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows from pensions	---	754,002	174,802	928,804
	$ 472,651	$ 109,743,490	$ 26,651,602	$ 136,867,743
LIABILITIES				
Benefits payable	$ ---	$ 778,685	$ ---	$ 778,685
Medical claims payable	---	2,393,953	---	2,393,953
Other liabilities and accruals	---	64,979	44,966	109,945
Net pension liability	---	2,943,210	730,394	3,673,604
Total liabilities	---	6,180,827	775,360	6,956,187
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from pensions	---	1,265,990	428,919	1,694,909
NET POSITION				
Held in trust for:				
Individuals, organizations, and others	472,651	---	---	472,651
Social security benefits	---	102,296,673	---	102,296,673
Pension benefits	---	---	25,447,323	25,447,323
Total net position	472,651	102,296,673	25,447,323	128,216,647
	$ 472,651	$ 109,743,490	$ 26,651,602	$ 136,867,743

See accompanying notes.

Republic of Palau

Statement of Changes in Fiduciary Net Position
Fiduciary Funds

Year ended September 30, 2023

	Custodial	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
Additions:				
Contributions:				
Government employees	$ ---	$ 12,870,390	$ ---	$ 12,870,390
Private employees	---	13,068,202	---	13,068,202
Retirees and disabled individuals	---	702,327	---	702,327
Employer contributions	---	---	3,817,441	3,817,441
Plan member contributions	---	516,925	3,798,458	4,315,383
Penalties and interest	---	38,328	---	38,328
	---	27,196,172	7,615,899	34,812,071
Allowance for doubtful accounts	---	(386,678)	---	(386,678)
Total contributions	---	26,809,494	7,615,899	34,425,393
Investment income:				
Net change in the fair value of investments	---	4,645,537	3,306,742	7,952,279
Interest and dividends	---	4,146,185	---	4,146,185
Total investment income	---	8,791,722	3,306,742	12,098,464
Less investment expense	---	345,895	180,520	526,415
Net investment income	---	8,445,827	3,126,222	11,572,049
Other	8	1,267,064	1,853,746	3,120,818
Total additions	8	36,522,385	12,595,867	49,118,260
Deductions:				
Benefits	---	38,443,378	11,897,847	50,341,225
General and administrative	256,786	2,115,694	302,120	2,674,600
Total deductions	256,786	40,559,072	12,199,967	53,015,825
Change in net position held in trust for:				
Social security benefits	(256,778)	(4,036,687)	---	(4,293,465)
Pension benefits	---	---	395,900	395,900
	(256,778)	(4,036,687)	395,900	(3,897,565)
Transfer from primary government	---	1,200,000	---	1,200,000
Change in fiduciary net postion	(256,778)	(2,836,687)	395,900	(2,697,565)
Net position at beginning of year	729,429	105,133,360	25,051,423	130,914,212
Net position at end of year	$ 472,651	$ 102,296,673	$ 25,447,323	$ 128,216,647

See accompanying notes.

Republic of Palau

Combining Statement of Net Position
Component Units

September 30, 2023

	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
Assets										
Current assets:										
Cash and cash equivalents	$ 8,329,121	$ 475,126	$ 600,104	$ 637,087	$ 557,610	$ 329,981	$ 9,805,090	$ 1,230,014	$ 5,019,181	$ 26,983,314
Investments	---	---	2,205,487	1,248,392	---	---	---	1,185,286	---	4,639,165
Receivables, net	4,972,214	1,724,841	753,479	521,646	696,377	87,842	2,901,617	215,113	1,046,082	12,919,211
Inventories	26,323	191,467	---	17,860	722,452	---	13,228,707	---	---	14,186,809
Prepaid expenses and other	1,190,344	---	---	533	588,165	4,550	2,143,749	15,761	61,204	4,004,306
Total current assets	14,518,002	2,391,434	3,559,070	2,425,518	2,564,604	422,373	28,079,163	2,646,174	6,126,467	62,732,805
Noncurrent assets:										
Investments	---	---	---	---	1,889,601	---	---	---	---	1,889,601
Receivables	27,299,122	---	7,740,502	---	---	---	---	---	---	35,039,624
Capital assets:										
Nondepreciable capital assets	---	---	---	---	1,176,191	---	15,115,529	---	1,478,878	17,770,598
Capital assets, net of accumulated depreciation	607,885	2,605,563	456,012	1,513,412	13,637,754	64,144	49,280,373	285	25,488,553	93,653,981
Lease assets, net	64,966	---	---	---	646,711	---	---	---	---	711,677
Indefeasible right of use	---	---	---	---	---	---	---	---	5,088,788	5,088,788
Foreclosed real estate	347,188	---	---	---	---	---	---	---	---	347,188
Other assets	---	2,203,182	---	---	---	---	---	---	---	2,203,182
Restricted assets:										
Cash and cash equivalents	1,178,894	1,993,326	---	---	753,760	---	---	---	---	3,925,980
Investments	---	7,746,475	---	---	---	---	---	---	---	7,746,475
Total noncurrent assets	29,498,055	14,548,546	8,196,514	1,513,412	18,104,017	64,144	64,395,902	285	32,056,219	168,377,094
Total assets	44,016,057	16,939,980	11,755,584	3,938,930	20,668,621	486,517	92,475,065	2,646,459	38,182,686	231,109,899
Deferred Outflows of Resources										
Deferred outflows from pensions	791,354	2,829,174	229,537	1,288,712	5,760,922	487,520	7,095,021	---	176,203	18,658,443
	$ 44,807,411	$ 19,769,154	$ 11,985,121	$ 5,227,642	$ 26,429,543	$ 974,037	$ 99,570,086	$ 2,646,459	$ 38,358,889	$ 249,768,342
Liabilities										
Current liabilities:										
Current portion of long-term debt	$ 285,686	$ ---	$ ---	$ ---	$ 801,504	$ ---	$ 400,000	$ ---	$ 800,000	$ 2,287,190
Accounts payable	348,591	576,838	13,421	42,467	1,998,177	4,935	9,342,753	27,304	---	12,354,486
Due to primary government	579,832	---	285,714	---	---	---	1,426,038	---	1,114,952	3,406,536
Due to fiduciary funds	416,466	---	---	---	---	---	---	---	---	416,466
Accrued payroll and others	90,547	574,836	---	135,598	705,526	82,859	751,003	5,398	523,824	2,869,591
Unearned revenues	2,552,065	449,745	---	220,928	1,829,670	---	409,831	15,020	8,801,720	14,278,979
Other liabilities	231,970	---	---	---	69,601	---	1,341,889	110,000	---	1,753,460
Total current liabilities	4,505,157	1,601,419	299,135	398,993	5,404,478	87,794	13,671,514	157,722	11,240,496	37,366,708
Noncurrent liabilities:										
Long-term debt, net of current portion	---	---	---	---	14,626,791	---	1,000,000	---	6,334,204	21,960,995
Net pension liability	2,594,001	11,358,278	545,905	3,185,695	13,028,965	1,168,847	22,195,116	---	192,325	54,269,132
Due to primary government	7,844,539	---	3,428,573	---	---	---	29,656,098	---	19,575,721	60,504,931
Due to fiduciary funds	577,016	---	---	---	---	---	---	---	---	577,016
Total noncurrent liabilities	11,015,556	11,358,278	3,974,478	3,185,695	27,655,756	1,168,847	52,851,214	---	26,102,250	137,312,074
Total liabilities	15,520,713	12,959,697	4,273,613	3,584,688	33,060,234	1,256,641	66,522,728	157,722	37,342,746	174,678,782
Deferred Inflows of Resources										
Deferred inflows from pensions	355,191	5,095,706	138,553	763,203	5,323,618	563,952	9,819,614	---	17,423	22,077,260
Net Position										
Net position:										
Net investment in capital assets	607,885	2,605,563	456,012	1,513,412	(614,350)	64,144	42,641,766	285	1,869,396	49,144,113
Restricted:										
Endowment	---	8,269,207	---	---	---	---	---	---	---	8,269,207
Debt service	---	---	---	---	250,472	---	---	---	---	250,472
Other purposes	834,782	2,292,352	8,243,056	171,571	---	---	---	2,488,452	---	14,030,213
Unrestricted	27,488,840	(11,453,371)	(1,126,113)	(805,232)	(11,590,431)	(910,700)	(19,414,022)	---	(870,676)	(18,681,705)
Total net position	28,931,507	1,713,751	7,572,955	879,751	(11,954,309)	(846,556)	23,227,744	2,488,737	998,720	53,012,300
	$ 44,807,411	$ 19,769,154	$ 11,985,121	$ 5,227,642	$ 26,429,543	$ 974,037	$ 99,570,086	$ 2,646,459	$ 38,358,889	$ 249,768,342

Republic of Palau

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

Year ended September 30, 2023

	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	$ 3,079,354	$ 9,449,354	$ 440,530	$ 2,511,688	$ 15,455,545	$ 2,290,852	$ 39,968,198	$ 1,268,371	$ 3,188,660	$ 77,652,552
Program revenues:										
Charges for services	2,316,752	1,505,726	204,155	431,891	10,868,017	737,738	33,638,450	---	3,172,962	52,875,691
Operating grants and contributions	---	5,518,221	---	1,337,057	75,000	1,098,000	499,624	671,863	---	9,199,765
Total program revenues	2,316,752	7,023,947	204,155	1,768,948	10,943,017	1,835,738	34,138,074	671,863	3,172,962	62,075,456
Net program revenues (expenses)	(762,602)	(2,425,407)	(236,375)	(742,740)	(4,512,528)	(455,114)	(5,830,124)	(596,508)	(15,698)	(15,577,096)
General revenues:										
Contributions from primary government	---	2,811,000	135,000	486,161	---	---	19,983	708,220	---	4,160,364
Investment earnings	43,369	1,702,489	259,070	88,932	63,254	---	---	227,839	84	2,385,037
Other	17,400	13,560	419,069	479,071	173,734	18,927	(13,161)	1,390	---	1,109,990
Total general revenues	60,769	4,527,049	813,139	1,054,164	236,988	18,927	6,822	937,449	84	7,655,391
Change in net position	(701,833)	2,101,642	576,764	311,424	(4,275,540)	(436,187)	(5,823,302)	340,941	(15,614)	(7,921,705)
Net position at beginning 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
Net position at end of year	$ 28,931,507	$ 1,713,751	$ 7,572,955	$ 879,751	$(11,954,309)	$(846,556)	$ 23,227,744	$ 2,488,737	$ 998,720	$ 53,012,300

See accompanying notes.

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.

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 and the Mega International Commercial Bank (MICB) (formerly the International Commercial Bank of China) 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.

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 and loan proceeds from MICB on-lent by the Republic to PHA for the purpose of financing housing development in the Republic.

- 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 MICB and NDBP in the event of default by PPUC. The Republic can impose its will on PPUC.

1. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

- 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. The Republic provides financial support to PVA through legislative appropriations.

- 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 provides financial support to ROPSSA through legislative appropriations.

1. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

- 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. The Republic provides financial support to ROPCSPP through legislative appropriations.

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

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.

1. Summary of Significant Accounting Policies, continued

Government-Wide Financial Statements, continued

- *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 $295,553,477 of restricted net position, of which $13,310,667 is restricted by enabling legislation.

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

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.

1. Summary of Significant Accounting Policies, continued

Measurement Focus and Basis of Accounting, continued

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

Governmental Fund Financial Statements - the governmental fund financial statements account for the general governmental activities of the Republic and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally, when they are both measurable and available. Revenues are 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.

1. Summary of Significant Accounting Policies, continued

Measurement Focus and Basis of Accounting, continued

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.

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.

1. Summary of Significant Accounting Policies, continued

Measurement Focus and Basis of Accounting, continued

Fund Accounting, continued

In addition, the Republic reports the following fiduciary funds:

- Custodial Fund - this fund is used to report resources held by the primary government in a purely custodial capacity relating to deposits made by defendants for court cases and unclaimed property.

- Private Purpose Trust Fund - this fund accounts for resources held in trust by the Republic of Palau Social Security Administration under which principal and income benefit certain individuals.

- Pension (and Other Employee Benefit) Trust Fund - this fund accounts for resources held in trust by the Republic of Palau Civil Service Pension 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, and 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.

1. Summary of Significant Accounting Policies, continued

Investments, continued

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.

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.

1. Summary of Significant Accounting Policies, continued

Interfund Receivables and Payables

During its operations, the Republic records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet. Receivables and payables resulting from transactions between component units and the primary government are classified as “due to/from primary government” or “due to/from component units” on the governmental fund balance sheet and the statement of net position. Interfund receivables and payables have been eliminated from the statement of net position.

Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements, trust arrangements or enabling legislation. Certain assets of the discretely presented component units are classified as restricted assets because their uses are restricted for economic development, capital projects, endowment funds and loan revolving programs.

Capital Assets

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

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, 2023.

1. Summary of Significant Accounting Policies, continued

Capital Assets, continued

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:

	Estimated Useful Life
Buildings and other improvements	10 - 50 years
Infrastructure	10 - 20 years
Vehicles	3 - 6 years
Machinery and equipment	4 - 20 years

Lease Assets

Right-of-use (ROU) assets are categorized at the lease commencement date and represent the Republic's right to use an underlying asset for the lease term. ROU assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement and initial direct costs. Options to renew or terminate the lease are recognized as part of ROU assets and lease liabilities when it is reasonably certain the options will be exercised.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for 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. The Republic has determined the difference between expected and actual experience, change in assumptions, net difference between projected and actual earnings on pension plan investments, pension contributions made subsequent to the measurement date, and changes in proportion and difference between the Republic's contributions and proportionate share of contributions qualify for reporting in this category.

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.

1. Summary of Significant Accounting Policies, continued

Unearned Revenues

In the government-wide financial statements, unearned revenues are recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, unearned revenues represent monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The unearned revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

Compensated Absences

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

Pensions

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

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 statement of net position will sometimes report a separate section for 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. The Republic has determined the difference between expected and actual experience, change in assumptions, net difference between projected and actual earnings on pension plan investments, and changes in proportion and difference between the Republic's contributions and proportionate share of contributions qualify for reporting in this category.

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.

1. Summary of Significant Accounting Policies, continued

Fund Balance, continued

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

A formal minimum fund balance policy has not been adopted.

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

During the year ended September 30, 2023, the Republic implemented the following pronouncements:

- GASB Statement No. 91, *Conduit Debt Obligations*, which provides 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.

1. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements,* which 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.

- GASB Statement No. 99, *Omnibus 2022*, which enhances comparability in the accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

  This Statement provides clarifications of provisions in:

  1) GASB Statement No. 87, *Leases*, 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.

  2) 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.

  This Statement modifies accounting and reporting guidance in:

  3) GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, related to termination of hedge.

The Republic has not implemented GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* which improves 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 is unable to ascertain the impact, if any, on the accompanying financial statements.

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

In April 2022, GASB issued Statement No. 99. 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.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. 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.

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the 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.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 102 will be effective for the fiscal year ending September 30, 2025.

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability and addressing certain application issues identified through pre-agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements or modifies existing requirements related to management's discussion and analysis (MD&A), unusual or infrequent items, presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, information about major component units in basic financial statements, budgetary comparison information and financial trends information in the statistical section. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 103 will be effective for the fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 104 will be effective for the fiscal year ending September 30, 2026.

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 105 will be effective for the fiscal year ending September 30, 2027.

Encumbrances

The Republic utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. As of September 30, 2023, the Republic has significant encumbrances summarized as follows:

General	Grants	Other Governmental	Total
$913,858	$5,902,171	$775,459	$7,591,488

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.

2. Deposits and Investments, continued

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.

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.

2. Deposits and Investments, continued

The following is a strategic asset allocation for the Fund:

Asset class	Lower limit	Strategic Allocation	Upper limit
U.S. Equities	23%	33%	43%
Global Equities	5%	15%	25%
Non-U.S. Equities	8%	18%	28%
Fixed Income	12%	22%	32%
Alternatives	2%	12%	22%
		100%	

The percentage allocation to each broad asset class may vary as much as plus or minus 10% of target. The Fund's asset allocation will be reviewed for compliance by the Committee after the end of each fiscal quarter. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Fund. When cash flows are insufficient to bring the Fund within the strategic allocation ranges, the Committee shall determine the appropriate course of action to be taken. The Investment Managers will then be instructed to execute such action required to bring the strategic allocation within the pre-specified 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, 2023, the carrying amount of the primary government's total cash and cash equivalents was $41,540,736 and the corresponding bank balances were $43,449,449, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2023, bank deposits in the amount of $750,000 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, 2023, the carrying amount of the fiduciary fund's total cash and cash equivalents was $4,471,826 and the corresponding bank balances were $4,455,417, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2023, bank deposits in the amount of $500,000 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.

2. Deposits and Investments, continued

Deposits, continued

As of September 30, 2023, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents was $30,909,294 and the corresponding bank balances were $31,922,073. Of the bank balances, $31,608,850 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, 2023, bank deposits in the amount of $4,074,724 were FDIC or SIPC insured. The remaining bank deposits of $313,223 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.

Investments

Primary Government

As of September 30, 2023, investments of the primary government are as follows:

General Fund:	
Equities	$ 7,339,082
Fixed income	3,029,951
Real estate and tangibles	203,324
Money market funds	20,107,798
	30,680,155
Permanent Fund:	
Equities	194,801,580
Fixed income	41,293,590
Real estate and tangibles	12,493,017
Alternatives	18,636,504
Money market funds	7,852,848
	275,077,539
Other Governmental Funds:	
Equities	2,536,964
Money market funds	132,461
	2,669,425
	$308,427,119

2. Deposits and Investments, continued

Investments, continued

Primary Government, continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Republic will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Republic's investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all these investments were held in the Republic's name by the Republic's custodial financial institutions as of September 30, 2023.

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

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of September 30, 2023, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2023, investments in fixed income debt securities of the primary government were as follows:

General Fund

	Investment Maturities (In Years)				
	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury notes	$ ---	$786,890	$ 580,573	$ 142,527	$1,509,990
Other U.S. government obligations	---	---	---	913,166	913,166
Corporate notes and bonds	14,948	131,317	446,593	13,937	606,795
	$14,948	$918,207	$1,027,166	$1,069,630	$3,029,951

2. Deposits and Investments, continued

Investments, continued

Primary Government, continued

Permanent Fund

	Investment Maturities (In Years)				
	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury notes	$542,881	$ 4,947,112	$ 2,993,434	$ 1,703,827	$10,187,254
U.S. Municipal obligations	---	293,369	171,687	491,195	956,251
Other U.S. government obligations	---	1,389,514	652,248	9,194,160	11,235,922
Corporate notes and bonds	396,278	8,979,433	8,013,834	1,524,618	18,914,163
	$939,159	$15,609,428	$11,831,203	$12,913,800	$41,293,590

As of September 30, 2023, credit quality distribution for debt securities of the primary government were as follows:

Investment Type	Credit Rating	General Fund	Permanent Fund
U.S. Treasury notes	AA	$1,509,990	$ 9,741,182
U.S. Treasury notes	Not Rated	---	446,072
U.S. Municipal obligations	AAA	---	124,749
U.S. Municipal obligations	AA	---	437,759
U.S. Municipal obligations	A	---	124,556
U.S. Municipal obligations	Not Rated	---	269,187
Other U.S. government obligations	AA	---	2,467,210
Other U.S. government obligations	Not Rated	913,166	8,768,712
Corporate notes and bonds	AAA	---	628,147
Corporate notes and bonds	AA	11,882	1,260,113
Corporate notes and bonds	A	202,860	4,566,865
Corporate notes and bonds	BBB	392,053	3,375,152
Corporate notes and bonds	BB	---	3,837,664
Corporate notes and bonds	B	---	4,454,349
Corporate notes and bonds	CCC	---	232,575
Corporate notes and bonds	Not Rated	---	559,298
		$3,029,951	$41,293,590

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, 2023:

General Fund

	Total	Fair Value Measurements Using (Level 1)	(Level 2)	(Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	$ 1,509,990	$1,509,990	$ ---	$ ---
Other U.S. government obligations	913,166	---	913,166	---
Corporate notes and bonds	606,795	---	606,795	---
	3,029,951	1,509,990	1,519,961	---
Equity securities	7,339,082	7,339,082	---	---
Real estate and tangibles	203,324	---	---	203,324
	7,542,406	7,339,082	---	203,324
Total investments by fair value level	10,572,357	$8,849,072	$1,519,961	$203,324
Investments measured at amortized cost:				
Money market funds	20,107,798			
	$30,680,155			

Permanent Fund

	Total	Fair Value Measurements Using (Level 1)	(Level 2)	(Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	$ 10,187,253	$ 10,187,253	$ ---	$ ---
U.S. Municipal obligations	956,252	---	956,252	---
Other U.S. government obligations	11,235,922	---	11,235,922	---
Corporate notes and bonds	18,914,163	---	18,914,163	---
	41,293,590	10,187,253	31,106,337	---
Equity securities	194,801,580	194,801,580	---	---
Real estate and tangibles	12,493,017	---	---	12,493,017
	207,294,597	194,801,580	---	12,493,017
Total investments by fair value level	248,588,187	$204,988,833	$31,106,337	$12,493,017
Investments measured at NAV:				
Alternatives	18,636,504			
Investments measured at amortized cost:				
Money market funds	7,852,848			
	$275,077,539			

Other Governmental Funds

	Total	Fair Value Measurements Using (Level 1)	(Level 2)	(Level 3)
Investments by fair value level:				
Equity securities	$2,536,964	$2,536,964	$ ---	$ ---
Investments measured at amortized cost:				
Money market funds	132,461			
	$2,669,425			

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds

Republic of Palau Social Security Administration (ROPSSA)

As of September 30, 2023, investments of ROPSSA are as follows:

Collective trust funds	$ 77,524,953
Fixed income	20,792,118
Mutual funds	1,112,800
Money market funds	783,311
	$100,213,182

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).

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds, continued

Republic of Palau Social Security Administration (ROPSSA), continued

b. American Depository Receipts (ADRs) that are listed on the NYSE, AMEX, or NASDAQ provided the total investment in these securities does not exceed 10% of the total assets managed by the Fund's investment manager at the time of purchase and such investments are in industries and areas of the market that the Fund's investment manager already has proven expertise.

c. Equity portfolios shall be diversified among issuers and industry classifications. The market value of the equity holdings in a single corporation should not exceed 5%, nor 5% of the corporation's total market capitalization.

d. An investment manager firm's aggregate equity position should not exceed 5% of the corporation's total market capitalization.

(4) International Equities

a. Equity securities of Corporations provided they are listed on the stock exchange of countries included in the Morgan Stanley Capital International (MSCI) All Country World excluding US Index.

b. ADRs, European Depository Receipts (EDRs) and Global Depository Receipts (GDRs) relating to any of the above are allowable.

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, 2023, ROPSSA's investments in fixed income debt securities were as follows:

	Investment Maturities (In Years)				
	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury notes	$ 581,476	$ 489,690	$ 337,204	$1,527,574	$ 2,935,944
U.S. Municipal obligations	---	1,110,405	826,838	829,354	2,766,597
Other U.S. government obligations	440	1,524,654	967,168	1,363,453	3,855,715
Corporate notes and bonds	1,677,552	4,591,083	2,353,656	2,611,571	11,233,862
	$2,259,468	$7,715,832	$4,484,866	$6,331,952	$20,792,118

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, 2023, is as follows:

Investment Type	Credit Rating	Amount
U.S. Treasury notes	Aaa	$ 2,935,944
Other U.S. Government obligations	Aaa	3,855,715
U.S. Municipal obligations	A1	239,522
U.S. Municipal obligations	A2	206,408
U.S. Municipal obligations	Aa2	807,021
U.S. Municipal obligations	Aaa	145,602
U.S. Municipal obligations	Aa3	364,226
U.S. Municipal obligations	Not Rated	1,003,818
Corporate notes and bonds	A1	1,703,129
Corporate notes and bonds	A2	2,765,918
Corporate notes and bonds	A3	1,224,386
Corporate notes and bonds	Aa1	93,508
Corporate notes and bonds	Aa2	121,214
Corporate notes and bonds	Aa3	892,471
Corporate notes and bonds	Aaa	1,356,537
Corporate notes and bonds	Baa1	812,919
Corporate notes and bonds	Baa2	754,482
Corporate notes and bonds	BBB	165,756
Corporate notes and bonds	Not Rated	1,343,542
		$20,792,118

ROPSSA has the following recurring fair value measurements as of September 30, 2023:

		Fair Value Measurements Using		
	Total	(Level 1)	(Level 2)	(Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	$ 2,935,944	$2,935,944	$ ---	$ ---
U.S. Municipal obligations	2,766,597	---	2,766,597	---
Other U.S. government obligations	3,855,715	---	3,855,715	---
Corporate notes and bonds	11,233,862	---	11,233,862	---
Total investments by fair value level	20,792,118	$2,935,944	$17,856,174	$ ---
Investments measured at NAV:				
Collective trust funds	77,524,953			
Mutual funds	1,112,800			
Investments measured at amortized cost:				
Money market funds	783,311			
	$100,213,182			

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds, continued

Republic of Palau Civil Service Pension Plan (ROPCSPP)

As of September 30, 2023, investments of ROPCSPP are as follows:

Equities	$13,753,956
Fixed income	9,338,538
Money market funds	543,142
	$23,635,636

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 Depository Receipts, convertible bonds, preferred stocks, fixed income securities, mutual funds and short-term securities are permissible investments.

3. No individual security or any issuer, other than that of the United States Government, and alternative investments, shall constitute more than 10% 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.

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds, continued

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

Investments may be made in the following investment types:

Fixed Income:

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

(B) No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the investment manager has specific prior written authorization from the Board of Trustees.

(C) Total portfolio quality (capitalization weighted) shall maintain a credit quality rating of no less than "A".

(D) U.S. SEC registered mutual funds that invest in fixed income securities, either U.S. or non U.S., will not be subject to the above guidelines.

(E) It is the policy of the Board to place assets in Local Certificates of Deposit (Local CDs) issued by local banking institutions, with the express purpose of making funds available to the local community in the form of loans. While these Local CDs are held, they will be included in the "strategic asset allocation" as fixed income investments. However, these Local CDs and the local banking institutions must meet the following criteria on an ongoing basis:

   a) Local CDs must offer a competitive return 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.

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds, continued

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

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.

(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.

2. Deposits and Investments, continued

Investments, continued

Fiduciary Funds, continued

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

Alternative Investments:

(A) Alternative investments are often structured as private investments and are generally formed as limited partnerships or limited liability companies and, in many cases, organized in low or no tax jurisdictions. The managers of these investments generally are allowed to operate with greater flexibility than most traditional investment managers and their compensation usually includes substantial performance invectives.

(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, 2023, ROPCSPP's investments in fixed income debt securities were as follows:

	Investment Maturities (In Years)				
	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury notes	$ ---	$ ---	$3,204,948	$1,000,617	$4,205,565
Other U.S. government obligation	---	---	---	3,796,143	3,796,143
Corporate notes and bonds	---	---	1,336,830	---	1,336,830
	$ ---	$ ---	$4,541,778	$4,796,760	$9,338,538

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, 2023, is as follows:

Investment Type	Credit Rating	Amount
U.S. Treasury notes	AAA	$4,205,565
Other U.S. government obligations	Not Rated	3,796,143
Corporate notes and bonds	A	1,336,830
		$9,338,538

ROPCSPP has the following recurring fair value measurements as of September 30, 2023:

	Total	Fair Value Measurements Using (Level 1)	(Level 2)	(Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	$ 4,205,565	$ 4,205,565	$ ---	$ ---
Other U.S. government obligations	3,796,143	---	3,796,143	---
Corporate notes and bonds	1,336,830	---	1,336,830	---
	9,338,538	4,205,565	5,132,973	---
Equity securities	12,649,147	12,649,147	---	---
Real Estate Investment Trusts	1,104,809	1,104,809	---	---
	13,753,956	13,753,956	---	---
Total investments by fair value level	23,092,494	$17,959,521	$5,132,973	$ ---
Investments measured at amortized cost:				
Money market fund	543,142			
	$23,635,636			

Discretely Presented Component Units

Palau Community College (PCC)

As of September 30, 2023, investments of PCC are as follows:

Equities	$5,342,753
Fixed income	1,685,795
Real estate and tangibles	429,597
Money market funds	288,330
	$7,746,475

2. Deposits and Investments, continued

Investments, continued

Discretely Presented Component Units, continued

Palau Community College (PCC), continued

As of September 30, 2023, maturities of investments in fixed income securities for PCC are as follows:

	Investment Maturities (In Years)				
	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury notes	$ 178,062	$ 405,541	$ ---	$ 287,861	$ 871,464
Corporate notes and bonds	---	362,961	306,324	145,046	814,331
	$ 178,062	$ 768,502	$ 306,324	$ 432,907	$1,685,795

PCC's credit quality distribution for debt securities as of September 30, 2023, is as follows:

Investment Type	Credit Rating	Amount
U.S. Treasury notes	AAA	$ 871,464
Corporate notes and bonds	AAA	47,493
Corporate notes and bonds	A	250,570
Corporate notes and bonds	BBB	516,268
		$1,685,795

PCC has the following fair value measurements as of September 30, 2023:

		Fair Value Measurements Using		
	Total	(Level 1)	(Level 2)	(Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	$ 871,464	$ 871,464	$ ---	$ ---
Corporate notes and bonds	814,331	---	814,331	---
	1,685,795	871,464	814,331	---
Equity securities	5,772,350	5,772,350	---	---
Total investments by fair value level	7,458,145	$6,643,814	$814,331	$ ---
Investments measured at amortized cost:				
Money market funds	288,330			
	$7,746,475			

2. Deposits and Investments, continued

Investments, continued

Discretely Presented Component Units, continued

Palau Housing Authority (PHA)

As of September 30, 2023, investments of PHA are as follows:

Equities	$2,181,124
Money market funds	24,363
	$2,205,487

PHA has the following fair value measurements as of September 30, 2023:

		Fair Value Measurements Using		
	Total	(Level 1)	(Level 2)	(Level 3)
Investments by fair value level:				
Equity securities	$2,181,124	$2,181,124	$ ---	$ ---
Investments measured at amortized cost:				
Money market funds	24,363			
	$2,205,487			

Palau International Coral Reef Center (PICRC)

As of September 30, 2023, investments of PICRC are as follows:

Equities	$ 707,413
Fixed income	298,384
Exchange-traded fund	189,103
REITs	11,284
Money market funds	42,208
	$1,248,392

As of September 30, 2023, maturities of investments in fixed income securities for PICRC are as follows:

	Investment Maturities (In Years)				
	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury notes	$ 16,354	$ 89,279	$ 8,778	$ 38,530	$ 152,941
Corporate notes and bonds	---	56,805	62,426	26,212	145,443
	$ 16,354	$ 146,084	$ 71,204	$ 64,742	$ 298,384

2. Deposits and Investments, continued

Investments, continued

Discretely Presented Component Units, continued

Palau International Coral Reef Center (PICRC), continued

PICRC's credit quality distribution for debt securities as of September 30, 2023, is as follows:

Investment Type	Credit Rating	Amount
U.S. Treasury notes	AAA	$152,941
Corporate notes and bonds	AAA	8,524
Corporate notes and bonds	A	63,880
Corporate notes and bonds	BAA	73,039
		$298,384

PICRC has the following fair value measurements as of September 30, 2023:

		Fair Value Measurements Using		
	Total	(Level 1)	(Level 2)	(Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	$ 152,941	$ ---	$ 152,941	$ ---
Exchange-traded funds	145,443	---	145,443	---
Corporate notes and bonds	189,103	---	189,103	---
	487,487	---	487,487	---
Equity securities	707,413	707,413	---	---
Total investments by fair value level	1,194,900	$707,413	$487,487	$ ---
Investments measured at net asset value:				
Real estate	11,284			
Investments measured at amortized cost:				
Money market funds	42,208			
	$1,248,392			

2. Deposits and Investments, continued

Investments, continued

Discretely Presented Component Units, continued

Palau National Communications Corporation (PNCC)

As of December 31, 2023, investments of PNCC are as follows:

Equities	$1,027,958
Fixed income	620,691
Exchange-traded funds	199,548
Money market funds	41,404
	$1,889,601

As of December 31, 2023, maturities of investments in fixed income securities for PNCC are as follows:

	Investment Maturities (In Years)				
	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury notes	$ ---	$193,530	$ 18,533	$ 102,263	$314,326
Corporate notes and bonds	---	93,636	157,155	55,574	306,365
	$ ---	$287,166	$175,688	$157,837	$620,691

PNCC's credit quality distribution for debt securities as of December 31, 2023, is as follows:

Investment Type	Credit Rating	Amount
U.S. Treasury notes	AAA	$314,326
Corporate notes and bonds	AAA	17,750
Corporate notes and bonds	A	78,875
Corporate notes and bonds	BBB	209,740
		$620,691

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, 2023:

		Fair Value Measurements Using		
	Total	(Level 1)	(Level 2)	(Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	$ 314,326	$ 314,326	$ ---	$ ---
Corporate notes and bonds	306,365	---	306,365	---
	620,691	314,326	306,365	---
Equity securities	1,027,958	1,027,958	---	---
Total investments by fair value level	1,648,649	$1,342,284	$306,365	$ ---
Investments measured at net asset value:				
Exchange-traded funds	199,548			
Investments measured at amortized cost:				
Money market funds	41,404			
	$1,889,601			

Protected Areas Network Fund (PANF)

Equities	$ 791,240
Fixed income	394,046
	$1,185,286

As of September 30, 2023, maturities of investments in fixed income securities for PANF are as follows:

	Investment Maturities (In Years)				
	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury notes	$ ---	$140,493	$11,411	$50,664	$202,568
Corporate notes and bonds	---	84,026	73,205	34,247	191,478
	$ ---	$224,519	$84,616	$84,911	$394,046

PANF's credit quality distribution for debt securities as of September 30, 2023, is as follows:

Investment Type	Credit Rating	Amount
U.S. Treasury notes	AAA	$202,568
Corporate notes and bonds	AAA	11,569
Corporate notes and bonds	A	86,710
Corporate notes and bonds	BAA	93,199
		$394,046

2. Deposits and Investments, continued

Investments, continued

Discretely Presented Component Units, continued

PANF has the following fair value measurements as of September 30, 2023:

		Fair Value Measurements Using		
	Total	(Level 1)	(Level 2)	(Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	$ 202,568	$202,568	$ ---	$ ---
Corporate notes and bonds	191,478	---	191,478	---
	394,046	202,568	191,478	---
Equity securities	791,240	791,240	---	---
Total investments by fair value level	$1,185,286	$993,808	$191,478	$ ---

3. Receivables

Primary Government

Receivables as of September 30, 2023, 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	$ 4,001,233	$ ---	$ ---	$ ---	$ ---	$ 4,001,233
General	3,166,019	1,628,596	---	11,515,376	---	16,309,991
Federal agencies	---	14,509,444	---	---	---	14,509,444
Contributions	---	---	---	---	7,522,966	7,522,966
Accrued interest	---	---	---	---	187,401	187,401
Other	---	---	---	---	1,959,763	1,959,763
	7,167,252	16,138,040	---	11,515,376	9,670,130	44,490,798
Allowance for uncollectible accounts	(1,156,204)	---	---	(11,390,103)	(3,549,992)	(16,096,299)
	$ 6,011,048	$16,138,040	$ ---	$ 125,273	$6,120,138	$ 28,394,499

Discretely Presented Component Units

Receivables as of September 30, 2023, 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	$ ---	$4,440,006	$ ---	$202,954	$2,395,877	$ ---	$5,754,206	$215,113	$1,046,082	$14,054,238
Loans	33,468,926	---	8,282,179	---	---	---	---	---	---	41,751,105
Accrued interest	635,213	---	9,589	---	---	---	---	---	---	644,802
Other	83,725	---	310,000	322,253	(993)	91,706	19,070	---	---	825,761
	34,187,864	4,440,006	8,601,768	525,207	2,394,884	91,706	5,773,276	215,113	1,046,082	57,275,906
Allowance for uncollectible accounts	(1,916,528)	(2,715,165)	(107,787)	(3,561)	(1,698,507)	(3,864)	(2,871,659)	---	---	(9,317,071)
	$32,271,336	$1,724,841	$8,493,981	$521,646	$ 696,377	$87,842	$2,901,617	$215,113	$1,046,082	$47,958,835

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, 2023, are summarized as follows:

Receivable Fund	Payable Fund	Amount
General	Grants	$ 8,946,518
General	Nonmajor governmental funds	2,096,420
Grants	General	11,012,905
Nonmajor governmental funds	General	8,767,427
		$30,823,270

These balances result from the time lag between the dates where 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, 2023, are summarized as follows:

	Due From	Due To
General Fund:		
National Development Bank of Palau	$ 8,424,371	$ ---
Palau Housing Authority	3,714,287	---
Palau Public Utilities Corporation	31,082,136	---
Belau Submarine Cable Corporation	20,690,673	---
	$63,911,467	$ ---

4. Interfund Receivables and Payables, continued

Primary Government, continued

National Development Bank of Palau (NDBP)

In 2016, NDBP entered into a $5,000,000 loan agreement with the Republic 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 based on six-month LIBOR plus 1% per annum, payable in semi-annually 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 $3,571,430 as of September 30, 2023.

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 $4,852,941 as of September 30, 2023.

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-month SOFR plus 1% per annum, payable in semi-annually 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 $3,714,287 as of September 30, 2023.

Palau Public Utility Corporation (PPUC)

In 2014, PPUC entered into a project agreement with Asian Development Bank (ADB) 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 ADB agreed to make available two loans to the Republic on the condition that the proceeds be on-lent by the Republic to the 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.

4. Interfund Receivables and Payables, continued

Primary Government, continued

Palau Public Utility Corporation (PPUC), continued

Interest payable on Loan Number 3061 is at 1.5% per annum payable semi-annually every April 1 and October 1 with principal payable semi-annually of SDR 26,208 through October 1, 2041. The outstanding balance of the loan receivables from PPUC (associated with Loan Number 3060 and Loan Number 3061) was $19,600,228 and $1,481,908, respectively, as of September 30, 2023.

In 2020, the Republic entered into a $5,000,000 loan agreement with the ADB for the purpose of improving the financial sustainability of PPUC. The loan proceeds were on-lent by the Republic 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. In 2022, the Republic entered into an additional $5,000,000 loan agreement with the ADB. The loan proceeds were also on-lent by the Republic to PPUC. 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 loan receivables from PPUC (associated with Loan Number 4030 and Loan Number 4198) was $5,000,000 and $5,000,000, respectively, as of September 30, 2023.

Belau Submarine Cable Corporation (BSCC)

In 2016, BSCC entered into a project agreement with the ADB 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 to the Republic on the condition that the proceeds be on-lent by the Republic to BSCC for project implementation. The two loans comprise of a $16,470,000 Ordinary Operations loan agreement (Loan Number 3346) and a SDR 6,032,000 Special Operations loan agreement (Loan Number 3347). Both loans are uncollateralized and are due and payable on June 1, 2041. Interest payable on Loan Number 3346 is at LIBOR plus 0.5% per annum payable semi-annually every June 1 and December 1 with principal payable at 2.5% of the total principal amount outstanding on each payment date. Interest payable on Loan Number 3347 is at 2% per annum payable semi-annually every June 1 and December 1 with principal payable semi-annually of SDR 150,800 through June 1, 2044. The outstanding balance of the loan receivables from BSCC (associated with Loan Number 3346 and Loan Number 3347) was $13,943,342 and $6,747,331, respectively, as of September 30, 2023.

4. Interfund Receivables and Payables, continued

Primary Government, continued

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

Year Ending September 30,	Principal	Interest	Total
2024	$ 3,406,536	$ 1,681,137	$ 5,087,673
2025	3,068,169	1,655,791	4,723,960
2026	3,193,169	1,593,134	4,786,303
2027	3,318,169	1,461,071	4,779,240
2028	3,568,169	1,387,978	4,956,147
2029-2033	17,502,478	5,259,130	22,761,608
2034-2038	23,046,041	2,532,173	25,578,214
2039-2043	4,936,736	373,382	5,310,118
2044-2048	1,872,000	65,834	1,937,834
	$63,911,467	$16,009,630	$79,921,097

Fiduciary Fund

Receivables and payables between funds reflected as due to/from component units at September 30, 2023, are summarized as follows:

	Due From	Due To
Republic of Palau Social Security Administration:		
National Development Bank of Palau	$ 993,482	$ ---

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 $993,482 with interest at 4.5% as of September 30, 2023. The loan is collateralized by the full faith and credit of the Republic.

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
2024	$416,466	$41,190	$ 457,656
2025	577,016	18,600	595,616
	$993,482	$59,790	$1,053,272

5. Capital Assets

Capital asset activities for the year ended September 30, 2023, are as follows:

Primary Government

	Balance October 1, 2022	Additions	Deletions	Transfers	Balance September 30, 2023
Depreciable capital assets:					
Building and other improvements	$ 180,213,258	$ 208,911	$ ---	$ 633,589	$181,055,758
Machinery and equipment	61,528,751	173,741	---	254,711	61,957,203
Vehicles	10,328,897	1,005,031	(445,781)	---	10,888,147
Infrastructure	253,128,545	3,848,640	(45,995)	---	256,931,190
	505,199,451	5,236,323	(491,776)	888,300	510,832,298
Less accumulated depreciation:					
Building and other improvements	(122,660,257)	(5,875,924)	---	---	(128,536,181)
Machinery and equipment	(30,256,864)	(3,895,059)	---	---	(34,151,923)
Vehicles	(8,410,236)	(877,224)	445,781	---	(8,841,679)
Infrastructure	(233,889,075)	(4,220,895)	45,995	---	(238,063,975)
	(395,216,432)	(14,869,102)	491,776	---	(409,593,758)
Total depreciable capital assets, net	109,983,019	(9,632,779)	---	888,300	101,238,540
Nondepreciable capital assets:					
Land	3,899,403	---	---	---	3,899,403
Construction in progress	24,891,150	5,294,012	---	(888,300)	29,296,862
	28,790,553	5,294,012	---	(888,300)	33,196,265
	$138,773,572	$(4,338,767)	$ ---	$ ---	$134,434,805

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	$ 965,346
Education	316,550
Health and welfare	1,306,607
Public safety	2,046,444
Cultural affairs and recreation	214,074
Transportation and commerce	9,070,673
Unallocated	949,408
Total depreciation expense	$14,869,102

The primary government has executed leases for land and building space. The terms of the agreements range from 1 to 25 years generally at fixed monthly payments with no variable payments or escalation clauses. The calculated interest rates used were between 2.02% and 4.31%.

Lease asset activities for the year ended September 30, 2023, were as follows:

	Balance at October 1, 2022	Additions	Deletions	Balance at September 30, 2023
Right-of-use assets	$ 8,601,170	$3,117,618	$ ---	$11,718,788
Less accumulated amortization	(1,198,657)	(358,232)	---	(1,556,889)
	$ 7,402,513	$2,759,386	$ ---	$10,161,899

Fiduciary Funds

	Estimated Useful Lives	Balance at October 1, 2022	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2023
Depreciable capital assets:					
Office furniture and equipment	4 - 13 years	$ 1,190,193	$ 11,669	$ ---	$ 1,201,862
Building and improvements	30 years	590,715	---	---	590,715
Vehicles	5 years	119,203	---	---	119,203
		1,900,111	11,669	---	1,911,780
Less accumulated depreciation		(1,200,415)	(215,314)	---	(1,415,729)
		$ 699,696	$ (203,645)	$ ---	$ 496,051

Discretely Presented Component Units

	Estimated Useful Lives	Balance at October 1, 2022	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2023
Depreciable capital assets:					
Buildings	3 - 30 years	$ 26,270,859	$ 129,463	$ ---	$ 26,400,322
Utility plant	2 - 30 years	223,781,043	6,057,074	(42,400)	229,795,717
Machinery and equipment	2 - 20 years	16,102,414	818,824	(72,918)	16,848,320
Infrastructure	2 - 15 years	3,437,991	179,407	(10,670)	3,606,728
		269,592,307	7,184,768	(125,988)	276,651,087
Less accumulated depreciation		(173,882,428)	(9,194,650)	79,972	(182,997,106)
		95,709,879	(2,009,882)	(46,016)	93,653,981
Non-depreciable capital assets:					
Construction in progress		17,070,335	2,622,347	(1,922,084)	17,770,598
		$112,780,214	$ 612,465	$(1,968,100)	$111,424,579

Lease asset activities for the year ended September 30, 2023, were as follows:

	Balance at October 1, 2022	Additions	Deletions	Balance at September 30, 2023
Right-of-use assets	$ 889,227	$ 66,849	$ ---	$ 956,076
Less accumulated amortization	(121,258)	(123,141)	---	(244,399)
	$ 767,969	$(56,292)	$ ---	$ 711,677

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, 2023, accumulated amortization expense of $1,577,746 has been recorded.

7. Leases

Primary Government

The following is a summary of principal and interest requirements to maturity for lease liabilities of the primary government, as lessee, as of September 30, 2023:

Year ending September 30,	Principal	Interest	Total
2024	$ 823,854	$ 54,729	$ 878,583
2025	680,795	34,121	714,916
2026	444,797	19,625	464,422
2027	279,337	9,855	289,192
2028	8,835	302	9,137
	$2,237,618	$118,632	$2,356,250

8. 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.

8. Long-term Debt, continued

Primary Government, continued

As of September 30, 2023, 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	5.43%	November 1, 2025	$ 3,953,390
Loan No. 2692 PAL (SF) Water Sector Improvement Program	October 6, 2011	1.50%	November 1, 2034	2,107,661
Loan No. 3060 PAL Koror-Airai Sanitation Project	March 28, 2014	5.45%	October 1, 2037	19,600,228
Loan No. 3061 PAL (SF) Koror-Airai Sanitation Project	March 28,2014	1.50%	October 1, 2044	1,481,908
Loan No. 3346 PAL North Pacific Regional Connectivity Investment Project	March 7, 2016	5.40%	December 1, 2040	13,943,342
Loan No. 3347 PAL (SF) North Pacific Regional Connectivity Investment Project	March 7, 2016	2.00%	December 1, 2040	6,747,331
Loan No. 3725 PAL Disaster Resilience Program	October 17, 2018	5.32%	September 15, 2035	15,000,000
Loan No. 3955 PAL Health Expenditures and Livelihoods Support Program	August 3, 2020	2.00%	July 15, 2045	20,000,000
Loan No. 4030 PAL Palau Public Utilities Corporation Reform Program #1	December 10, 2020	2.00%	December 1, 2045	5,000,000
Loan No. 4063 PAL Recovery through Improved Systems and Expenditure Support	May 17, 2021	5.44%	April 15, 2036	5,000,000
Loan No. 4064 PAL Recovery through Improved Systems and Expenditure Support	May 17, 2021	2.00%	April 15, 2046	20,000,000
Loan No. 4198 PAL Palau Public Utilities Corporation Reform Program #2	August 15, 2022	2.00%	August 15, 2047	5,000,000
Loan No. 4206 Recovery Improved Systems and Expenditure Support Program (Subprogram 2)	September 15, 2022	5.35%	August 15, 2037	30,000,000
				147,833,860
Mega International Commercial Bank (MICB):				
Loan No. 070026 Palau International Airport Repaving Project	August 24, 2004	3.50%	October 28, 2024	685,756
Loan No. 025-105002 Agriculture and Aquaculture Development Project	March 31, 2016	5.17%	March 31, 2036	3,571,430
Loan No. 025-105003 Housing Project	April 8, 2016	2.50%	April 8, 2036	3,714,287
Loan No. 025-107001 Housing Loan	September 6, 2019	4.74%	September 6, 2039	13,714,290
				21,685,763
International Cooperation and Development Fund (ICDF):				
Women and Youth Entrepreneurs	March 30, 2020	4.00%	November 15, 2039	4,852,941
Mortgage note payable	September 14, 2022	3.50%	September 13, 2032	2,151,950
				$176,524,514

<u>Asian Development Bank (ADB)</u>

Loan Number 2691 PAL in the amount of $12,600,000 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 2692 PAL (SF) in an amount of various currencies equivalent to SDR 2,230,000 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 to be on-lent to Palau Public Utilities Corporation (PPUC) to finance sanitation improvement projects.

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

Loan Number 3346 PAL in the amount of $16,470,000 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.

8. Long-term Debt, continued

Primary Government, continued

Asian Development Bank (ADB), continued

Loan Number 3347 PAL (SF) in an amount of various currencies equivalent to SDR 6,032,000 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 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 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 to be on-lent to PPUC to improve the financial sustainability of PPUC.

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

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

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

Loan Number 4206 PAL in the amount of $30,000,000 for post-COVID19 economic recovery through improved systems and expenditure support. 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. During the year ended September 30, 2023, the Republic recognized a foreign exchange loss of $435,752 associated with year-end remeasurement, which results in an increase in ADB loans payable.

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

8. Long-term Debt, continued

Primary Government, continued

Asian Development Bank (ADB), continued

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 notification 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 to finance the repair, improvement and maintenance of Palau International Airport and surrounding areas.

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

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

Loan Number 025-107001 in the amount of $15,000,000 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:

8. Long-term Debt, continued

Primary Government, continued

Mega International Commercial Bank (MICB), continued

(a) Ensure that its obligations under this Agreement shall always rank at least pari passu with all its other External Indebtedness and similar external obligations of the Borrower outstanding from time to time.

(b) Obtain and keep in full force and effect all governmental approvals required in connection with this Agreement and will promptly from time to time obtain all such exchange control authorizations and other governmental consents, approvals, licenses, authorizations, filings and registrations as may be or become necessary from time to time for the Borrower to make and perform this Agreement.

(c) Promptly inform the Lender, upon becoming aware of any occurrence or circumstance of, including, without limitation, any substantial dispute which may exist between the Borrower and any international agency, which might adversely affect its ability to perform its obligations under this agreement and of any Event of Default.

(d) Furnish or cause to be furnished to the Lender all such information and documents as the Lender may reasonably request in connection with the Borrowers' obligations under this Agreement.

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

(a) Payment default - the Borrower shall default 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.

8. Long-term Debt, continued

Primary Government, continued

Mega International Commercial Bank (MICB), continued

(e) Illegal Default - It becomes unlawful, or in the Lender's opinion is contrary to any applicable official statement, guidelines or policy or any authority of the country of any party hereto, for the Loan to be maintained by the Borrower to perform any obligation.

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 to be on-lent to NDBP to finance the implementation of women and youth entrepreneurs' project.

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

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

(a) The borrower shall insure the imported goods to be financed out of the proceeds of the loan against hazards incident to the acquisitions, transportation and delivery thereof to the place of use or installation.

(b) The borrower shall ensure that its obligations under this loan shall always rank at least pari passu with all its other present and future unsecured and unsubordinated indebtedness.

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 ratio is no less than one percent (1%).

8. Long-term Debt, continued

Primary Government, continued

Mortgage Note Payable

In 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, 2023 continuing through September 13, 2032 at which the principal amount becomes due and payable.

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

Year ending September 30,	Principal	Interest	Total
2024	$ 7,197,922	$ 55,436,178	$ 62,634,100
2025	7,533,025	5,206,856	12,739,881
2026	10,287,651	4,983,144	15,270,795
2027	10,473,705	4,758,328	15,232,033
2028	10,723,705	4,548,065	15,271,770
2029-2033	55,770,477	19,138,667	74,909,144
2034-2038	51,872,103	10,623,683	62,495,786
2039-2043	15,793,926	1,416,156	17,210,082
2044-2048	6,872,000	200,834	7,072,834
	$176,524,514	$106,311,911	$282,836,425

Changes in long-term debt of the primary government for the year ended September 30, 2023 was as follows:

	Balance October 1, 2022	Additions	Reductions	Foreign Exchange on SDR Revaluation	Balance September 30, 2023	Due Within One Year
Loans payable:						
ADB loans	$119,997,334	$31,492,412	$(4,091,638)	$435,752	$147,833,860	$1,885,708
MICB loans	23,571,471	---	(1,885,708)	---	21,685,763	5,018,096
ICDF loans	5,000,000	---	(147,059)	---	4,852,941	294,118
	148,568,805	31,492,412	(6,124,405)	435,752	174,372,564	7,197,922
Mortgage note payable	2,230,000	---	(78,050)	---	2,151,950	---
	$150,798,805	$31,492,412	$(6,202,455)	$435,752	$176,524,514	$7,197,922

8. Long-term Debt, continued

Discretely Presented Component Units

As of September 30, 2023, 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	$ 285,686
Palau National Communications Corporation:				
Rural Utilities Services	October 1, 1992	3%	May 1, 2039	15,428,295
Palau Public Utilities Corporation:				
Mega International Commercial Bank	September 4, 2006	3.5%	December 11, 2026	1,400,000
Belau Submarine Cable Corporation:				
Japan Bank for International Corporation	January 13, 2021	1.34%-1.75%	December 19, 2032	3,767,102
Sumitomo Mitsui Banking Corporation	January 13, 2021	1.34%-1.75%	December 19, 2032	3,367,102
				$24,248,185

National Development Bank of Palau (NDBP)

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

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.

8. Long-term Debt, continued

Discretely Presented Component Units, continued

National Development Bank of Palau (NDBP), continued

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

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

Year ending September 30,	Principal	Interest	Total
2024	$285,686	$9,999	$295,685

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. In 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.

8. Long-term Debt, continued

Discretely Presented Component Units, continued

Palau National Communications Corporation (PNCC), continued

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.

In 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.

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

Year ending December 31,	Principal	Interest	Total
2024	$ 801,504	$ 476,224	$ 1,277,728
2025	826,083	452,680	1,278,763
2026	851,127	428,102	1,279,229
2027	877,015	403,057	1,280,072
2028	903,591	377,169	1,280,760
2029 - 2033	4,947,870	1,445,540	6,393,410
2034 - 2038	5,806,048	693,081	6,499,129
2039	415,057	38,231	453,288
	$15,428,295	$4,314,084	$19,742,379

8. Long-term Debt, continued

Discretely Presented Component Units, continued

Palau Public Utilities Corporation (PPUC)

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

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

Year ending September 30,	Principal	Interest	Total
2024	$ 400,000	$45,500	$ 445,500
2025	400,000	31,500	431,500
2026	400,000	17,500	417,500
2027	200,000	3,500	203,500
	$1,400,000	$98,000	$1,498,000

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, 2023, the amount owing by BSCC under this loan facility is $7,134,204; however, interest rates on the JBIC and SMBC loans have not yet been determined. Prior to the drawdowns during the year ended September 30, 2023, 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.

8. Long-term Debt, continued

Discretely Presented Component Units, continued

Belau Submarine Cable Corporation (BSCC), continued

Changes in long-term debt of the discretely presented component units for the year ended September 30, 2023 was as follows:

	Balance October 1, 2022	Additions	Reductions	Balance September 30, 2023	Due Within One Year
Loans payable:					
NDBP loans	$ 571,402	$ ---	$(285,716)	$ 285,686	$ 285,686
PNCC loans	16,164,904	---	(736,609)	15,428,295	801,504
PPUC loans	1,800,000	---	(400,000)	1,400,000	400,000
BSCC loans	7,186,472	347,732	(400,000)	7,134,204	800,000
	$25,722,778	$347,732	$(1,822,325)	$24,248,185	$2,287,190

9. Change in Other Long-term Liabilities

Primary Government

During the year ended September 30, 2023, 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, 2022	Additions	Reductions	Balance September 30, 2023	Due Within One Year
Other liabilities:					
Compensated absences	$ 5,335,854	$3,027,797	$(2,652,993)	$ 5,710,658	$2,677,782
Net pension liability	187,035,216	---	(28,932,073)	158,103,143	---
	$192,371,070	$3,027,797	$(31,585,066)	$163,813,801	$2,677,782

Discretely Presented Component Units

Changes in other long-term liabilities of the discretely presented component units for the year ended September 30, 2023, are as follows:

	Balance October 1, 2022	Additions	Reductions	Balance September 30, 2023	Due Within One Year
Other liabilities:					
Net pension liability	$ 61,822,810	$ ---	$(7,553,678)	$ 54,269,132	$ ---
Due to primary government:					
NDBP	8.857,144	---	(432,773)	8,424,371	579,832
PHA	4,000,001	---	(285,714)	3,714,287	285,714
PPUC	32,357,249	---	(1,275,113)	31,082,136	1,426,038
BSCC	20,815,862	1,021,679	(1,146,868)	20,690,673	1,114,952
	66,030,256	1,021,679	(3,140,468)	63,911,467	3,406,536
Due to fiduciary funds:					
NDBP	1,155,884	---	(162,402)	993,482	416,466
	$129,008,950	$1,021,679	$(10,856,548)	$119,174,081	$3,823,002

10. Restricted Assets

Primary Government

Deposit accounts established in accordance with various Grant Assistance for Grassroots Human Security Projects funded by the Embassy of Japan in the Republic	$1,633,095
Deposit account held by the Republic for the purpose of accounting of funds in lieu of membership fees to various international organizations	342,609
Deposit accounts established in accordance with Asian Development Bank grant agreements	300,016
Deposit account established specifically for Conservation International Foundation Grant project	94,928
	$2,370,648

Investments held in a trust fund for the purpose of accumulating resources to fund future government operations	$269,618,362
Investments held in a trust fund previously for the purpose of funding a liability to the United States government in which the United States Government contributed to the Republic for the purpose of accumulating resources to fund future Compact Road maintenance	5,459,177
	$275,077,539

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.	$ 827,346
Deposit accounts for ADB Solar Project	351,548
	1,178,894

Palau Community College

Deposit accounts established for library fund and endowment fund.	1,993,326
Investments held for endowment purposes	7,746,475

10. Restricted Assets, continued

Discretely Presented Component Units, continued

Palau National Communications Corporation

Deposit account established in accordance with Rural Utilities Service loan agreement for the purposes of a reserve account	753,760
	$11,672,455

11. 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, 2021, 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	3,423
	6,662

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.

11. Pension Plan, continued

General Information About the Pension Plan, continued

Benefits Provided, continued: 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.

11. 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:

Factor	If the Spouse or Beneficiary is:
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.

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.

11. 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.

11. Pension Plan, continued

General Information About the Pension Plan, continued

The Republic's contributions to the Plan for the year ended September 30, 2023 were $2,146,885, 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:

Age	Disability
25	0.21%
30	0.18%
35	0.25%
40	0.35%
45	0.50%
50	0.76%
55	1.43%
60	2.12%

11. 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 6.74% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of the September 30, 2023 actuarial valuation, the arithmetic real rates of return for each major investment class are as follows:

Asset Class	Target Allocation	Expected Rate of Return
U.S. Equities	46%	8.46%
Non U.S. Equities (Mature Markets)	10%	8.20%
Fixed Income (U.S. Core)	40%	3.72%
Alternatives (Real Estate Investment Trusts)	4%	8.72%
	100%	

11. Pension Plan, continued

General Information About the Pension Plan, continued

Discount Rate: The discount rate used to measure the total pension liability was 3.86% at the current measurement date and 2.23% at the prior 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 2026. For years on or after 2026, a Municipal Bond Index rate of 3.82% was used. The Municipal Bond Index rate from the prior measurement date was 2.17%.

Discount Rate Sensitivity Analysis: The following presents the Republic's proportionate share of the net pension liability as of September 30, 2023, calculated using the discount rate of 3.86% as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (2.86%) or 1% higher (4.86%) than the current discount rate.

1% Decrease in Discount Rate 2.86%	Current Discount Rate 3.86%	1% Increase in Discount Rate 4.86%
$181,415,546	$158,103,143	$138,739,414

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

Primary Government

Pension Liability: At September 30, 2023, the Republic reported a liability of $158,103,143 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, 2023, the Republic's proportion was 60.03%.

Pension Expense: For the year ended September 30, 2023, the Republic recognized pension expense of $5,847,422.

11. Pension Plan, continued

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

Primary Government, continued

Deferred Outflows and Inflows of Resources: As of September 30, 2023, the Republic reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 2,040,854	$24,314,397
Change of assumptions	25,360,518	39,438,599
Net difference between projected and actual earnings on pension plan investments	4,274,149	847,743
Contributions subsequent to the measurement date	2,146,885	---
Changes in proportion and difference between the Republic's contributions and proportionate share of contributions	7,631,842	12,387,784
	$41,454,248	$76,988,523

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, 2023, will be recognized in pension expense as follows:

Year ending September 30,	
2024	$(5,871,113)
2025	(5,988,618)
2026	(4,215,631)
2027	(7,984,191)
2028	(10,557,341)
Thereafter	(3,064,266)
	$(37,681,160)

11. Pension Plan, continued

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

Discretely Presented Component Units

Pension Liability: At September 30, 2023, the discretely presented component units reported a liability of $54,269,132 for their proportionate share of the net pension liability. The discretely presented component units' proportion of the net pension liability was based on projection of the discretely presented component units' long-term share of contributions to the Plan relative to the projected contributions of the Republic, the discretely presented component units and other government agencies, actuarially determined.

At September 30, 2023, the discretely component units' proportion was 19.62%.

Pension Expense: For the year ended September 30, 2023, the discretely presented component units recognized pension expense of $5,244,285.

Deferred Outflows and Inflows of Resources: As of September 30, 2023, the discretely presented component units reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 818,432	$ 7,849,640
Change of assumptions	8,971,878	12,272,324
Net difference between projected and actual earnings on pension plan investments	1,284,849	456,988
Contributions subsequent to the measurement date	350,119	---
Changes in proportion and difference between the discretely presented component units contributions and proportionate share of contributions	7,233,165	1,498,308
	$18,658,443	$22,077,260

11. Pension Plan, continued

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

Fiduciary Funds

Pension Liability: At September 30, 2023, the fiduciary funds reported a liability of $3,673,604 for their proportionate share of the net pension liability. The fiduciary funds' proportion of the net pension liability was based on projection of the fiduciary funds' long-term share of contributions to the Plan relative to the projected contributions of the Republic, the fiduciary funds, discretely presented component units and other government agencies, actuarially determined.

At September 30, 2023, the fiduciary fund's proportion was 1.39%.

Pension Expense: For the year ended September 30, 2023, the fiduciary funds recognized pension expense of $177,477.

Deferred Outflows and Inflows of Resources: As of September 30, 2023, the fiduciary funds reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 47,420	$ 128,107
Change of assumptions	589,264	916,375
Net difference between projected and actual earnings on pension plan investments	99,312	456,547
Contributions subsequent to the measurement date	54,212	---
Changes in proportion and difference between the fiduciary funds contributions and proportionate share of contributions	138,596	193,880
	$ 928,804	$ 1,694,909

12. Transfers In/Out

Operating transfers for each major fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2023, are as follows:

	Transfer Out	Transfer In
General Fund:		
Grants Fund	$ ---	$ 2,858,114
Other governmental funds	---	2,696,275
Compact Section 211(f) Fund	---	15,000,000
	---	20,554,389
Grants Fund:		
Other governmental funds	---	1,200,000
General Fund	2,858,114	---
	2,858,114	1,200,000
Compact Section Fund:		
General Fund	15,000,000	---
Other governmental funds:		
Grants Fund	1,200,000	---
General Fund	2,696,275	---
	3,896,275	---
	$21,754,389	$21,754,389

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

13. Fund Balances

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

	General	Grants	Permanent Fund	Nonmajor Governmental Funds	Totals
Nonspendable:					
UMDA investment	$ 1,191,965	$ ---	$ ---	$ ---	$ 1,191,965
Loan receivable - NDBP	8,424,371	---	---	---	8,424,371
Loan receivable - PDHA	3,714,287	---	---	---	3,714,287
Loan receivable - PPUC	31,082,136	---	---	---	31,082,136
Loan receivable - BSCC	20,690,673	---	---	---	20,690,673
Permanent fund principal	---	---	275,077,539	---	275,077,539
	65,103,432	---	275,077,539	---	340,180,971
Restricted:					
Housing Development Loan Project	1,435,594	---	---	---	1,435,594
Health Expenditure and Livelihood Support	1,511,759	---	---	---	1,511,759
Compact related	---	7,165,271	---	---	7,165,271
Other	6,386,372	2,795,588	---	---	9,181,960
	9,333,725	9,960,859	---	---	19,294,584
Committed:					
Protected Area Network	467,372	---	---	---	467,372
Financial Institutions Commission	389,983	---	---	---	389,983
Non-lapsing	6,977,533	---	---	---	6,977,533
Cyclical Reserve	1,004,683	---	---	---	1,004,683
Scholarship	319,416	---	---	---	319,416
ROC Capital Projects	---	1,732,940	---	---	1,732,940
Forfeited property	---	---	---	145,379	145,379
Hospital	---	---	---	4,043,171	4,043,171
Non-Communicable Diseases	---	---	---	2,825,054	2,825,054
Publication law access unit	---	---	---	18,391	18,391
Fisheries Protection	---	---	--	1,158,949	1,158,949
Environmental protection	---	---	---	557,869	557,869
Other	---	---	---	33,326	33,326
	9,158,987	1,732,940	---	8,782,139	19,674,066
Unassigned	37,310,769	(15,203)	---	(450,387)	36,845,179
	$120,906,913	$11,678,596	$275,077,539	$8,331,752	$415,994,800

14. 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, 2023, amounted to $14,723,967.

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.

14. 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, 2023. 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, 2023 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, 2023, are as follows:

a) Guaranteed bank debt of the National Development Bank of Palau (NDBP) in respect of a loan from the Mega International Commercial Bank with a letter of guarantee. As of September 30, 2023, NDBP had guaranteed debt totaling $285,686.

14. 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 Administration with a letter of guarantee. As of September 30, 2023, NDBP had guaranteed debt associated with this loan totaling $993,482.

c) Guaranteed a debt of the Palau National Communications Corporation (PNCC) in respect of a loan from the United States Rural Utilities Service (RUS) with a letter of guarantee. As of December 31, 2023, PNCC had guaranteed debt totaling $15,428,295.

d) Guaranteed bank debt of Palau Public Utilities Corporation (PPUC) in respect of a loan from the Mega International Commercial Bank with a letter of guarantee. As of September 30, 2023, PPUC had guaranteed debt totaling $1,400,000.

e) Guaranteed bank debt of the Belau Submarine Cable Corporation (BSCC) in respect of loans from the Japan Bank for International Corporation and Sumitomo Mitsui Banking Corporations with letters of guarantee. As of September 30, 2023, BSCC had guaranteed debt totaling $7,134,204.

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 ADB 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, 2023, the Republic had drawn down $22,631,735 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 ADB in the combined amount of $23,550,000. As of September 30, 2023, the Republic had drawn $23,254,512 against these loans.

15. Subsequent Events

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

On April 6, 2026, the Republic executed a 56,250,000 Saudi Riyals (Loan Number 01/860) with the Saudi Fund for Development for the purpose of financing the Supporting Palau Development Bank Project.

Republic of Palau

REQUIRED SUPPLEMENTARY INFORMATION

Year ended September 30, 2023

Republic of Palau

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund (Fund 1000)
Year ended September 30, 2023

	Original Budget	Final Budget	Actual - Budgetary Basis (see note 1)	Variance
Revenues:				
Local revenue	$ 49,529,000	$ 56,015,691	$ 60,761,567	$ 4,745,876
Net change in the fair value of investments	---	---	(106,904)	(106,904)
Total revenues	49,529,000	56,015,691	60,654,663	4,638,972
Expenditures - budgetary basis:				
Office of the President	1,210,552	1,210,552	1,317,726	(107,174)
Office of the Vice-President	524,689	524,689	520,356	4,333
Ministry of Finance	4,700,415	5,839,618	5,774,542	65,076
Ministry of State	3,858,749	3,858,749	3,810,077	48,672
Ministry of Human Resources, Commerce, Tourism and Development	1,843,833	1,843,833	1,654,670	189,163
Ministry of Education	9,301,770	9,301,770	9,150,362	151,408
Ministry of Public Infrastructure and Industries	6,615,633	6,745,633	6,391,695	353,938
Ministry of Justice	5,896,741	6,246,741	6,224,013	22,728
Ministry of Health and Human Services	11,078,431	11,578,431	10,584,966	993,465
Ministry of Agriculture, Fisheries and the Environment	1,365,000	1,365,000	1,312,494	52,506
Boards, Commissions and Authorities	1,172,278	1,156,278	984,287	171,991
Judicial Branch	2,873,000	2,873,000	2,864,161	8,839
Legislative Branch	5,641,712	5,941,712	5,669,376	272,336
State Block Grants	8,456,000	8,456,000	8,369,729	86,271
Independent Agencies	3,005,895	2,995,895	2,824,249	171,646
Other Agencies and Activities	1,602,000	1,639,000	1,624,187	14,813
Education Assistance	3,568,000	3,568,000	3,568,000	---
Other Appropriations:				
Wage and Salary Increase	4,400,000	4,400,000	3,707,921	692,079
Ngardok Lake Clean Up	25,000	25,000	25,000	---
Mechesil Belau Conference	---	100,000	100,000	---
Koror State Solid Waste Management	---	250,000	250,000	---
Disaster Assistance to Guam	---	250,000	250,000	---
Economic Development Plan	---	100,000	---	100,000
Marine Transportation Expense (Kayangel, Angaur, Peleliu)	---	45,000	30,000	15,000
Debt service payments	---	5,397,488	5,397,488	---
Total expenditures	77,139,698	85,712,389	82,405,299	3,307,090
Deficiency of revenues under expenditures	(27,610,698)	(29,696,698)	(21,750,636)	7,946,062
Other financing sources (uses):				
Loan proceeds	---	---	1,492,412	1,492,412
Operating transfers in	36,961,000	39,497,000	39,035,800	(461,200)
Operating transfers out	(9,508,000)	(9,958,000)	(10,308,192)	(350,192)
Total other financing sources (uses), net	27,453,000	29,539,000	30,220,020	681,020
	(157,698)	(157,698)	8,469,384	8,627,082
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	157,698	157,698	387,176	229,478
Net change in fund balance	$ ---	$ ---	$ 8,856,560	$ 8,856,560

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 2023, 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 Fund Balance
General Fund (Fund 1000):	
Budgetary basis	$ 8,856,560
GASB 54 Funds included within the General Fund:	
PAN Fund (Fund 1010)	70,701
Financial Institutions Commission Fund (Fund 1030)	65,023
Non-Lapsing Fund (Fund 1140)	1,220,004
Receivable Fund (Fund 1160)	(486,613)
Cyclical Reserve Fund (Fund 2000)	(6,007,773)
Climate Resilience Reserve Fund (Fund 2010)	464,823
Debt Service Fund (Fund 5000)	13,244,541
Scholarship Fund (Fund 1100)	395,471
Compact Section 213 Fund (Fund 1150)	590,516
	9,556,693
	$18,413,253

Republic of Palau

OTHER SUPPLEMENTARY INFORMATION

Year ended September 30, 2023

Republic of Palau

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Pension Fund total net pension liability	$ 263,365,274	$ 304,866,042	$ 344,381,167	$ 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	$ 158,103,140	$ 187,035,216	$ 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	60.032%	61.350%	62.132%	61.66%	62.24%	62.71%	63.27%	63.60%	63.62%	64.68%
The Republic's covered payroll**	$ 36,620,800	$ 37,028,517	$ 39,515,633	$ 36,942,483	$ 36,376,067	$ 35,132,100	$ 33,613,700	$ 30,974,633	$ 29,751,500	$ 23,967,024
The Republic's proportionate share of the net pension liability as a percentage of its covered payroll	432%	505%	541%	515%	429%	463%	470%	443%	437%	491%
Pension Fund fiduciary net position as a percentage of the total pension liability	8.69%	10.47%	8.42%	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-payroll data from the actuarial valuation date with one-year lag.

Republic of Palau

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	$ 10,233,689	$ 9,489,650	$ 9,789,257	$ 8,688,624	$ 10,775,665	$ 10,772,273	$ 9,121,540	$ 6,932,790	$ 4,269,025	$ 1,761,120
Contribution in relation to the contractually required contribution	2,146,885	2,197,248	2,221,711	2,370,938	2,216,549	2,182,564	2,107,926	2,016,822	1,858,478	1,785,090
Contribution excess(deficiency)	$ 8,086,804	$ 7,292,402)	$ 7,567,546	$ 6,317,686	$ 8,559,116	$ 8,589,709	$ 7,013,614	$ 4,915,968	$ 2,410,547	$ (23,970)
The Republic's covered-payroll**	$ 35,781,417	$ 36,620,800	$ 37,028,517	$ 39,515,633	$ 36,942,483	$ 36,376,067	$ 35,132,100	$ 33,613,700	$ 30,974,633	$ 29,751,500
Contribution as a percentage of covered-payroll	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

*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, 2023

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.

Republic of Palau

GENERAL FUND

Combining Balance Sheet

September 30, 2023

		1100	1150	4000		
	General	Scholarship	Compact Section 213	Local CIP	Elimination	Total
ASSETS						
Cash and cash equivalents	$ 39,170,088	$ ---	$ ---	$ ---	$ ---	$ 39,170,088
Investments	24,662,266	---	6,017,889	---	---	30,680,155
Receivables, net:						
Taxes	4,001,233	---	---	---	---	4,001,233
General	2,009,815	---	---	---	---	2,009,815
Due from component units	63,911,467	---	---	---	---	63,911,467
Due from other funds	72,340,543	325,000	---	6,436,468	(68,059,073)	11,042,938
Advances	189,030	---	---	---	---	189,030
Prepaid items	169,108	---	---	---	---	169,108
Other assets	1,191,965	---	---	---	---	1,191,965
Restricted Assets:						
Cash and cash equivalents	2,370,648	---	---	---	---	2,370,648
Total assets	$ 210,016,163	$ 325,000	$ 6,017,889	$ 6,436,468	$(68,059,073)	$ 154,736,447
LIABILITIES AND FUND BALANCES (DEFICIT)						
Liabilities:						
Accounts payable	$ 2,936,246	$ 3,400	$ ---	$ ---	$ ---	$ 2,939,646
Contracts payable	314,736	---	---	107,576	---	422,312
Retention payable	19,548	---	---	---	---	19,548
Due to State governments	911,350	---	---	---	---	911,350
Due to other funds	87,839,405	---	---	---	(68,059,073)	19,780,332
Accrued payroll and others	3,084,427	2,184	---	---	---	3,086,611
Deferred revenue	67,205	---	---	---	---	67,205
Other liabilities and accruals	1,311,181	---	---	---	---	1,311,181
Income tax refunds	5,291,349	---	---	---	---	5,291,349
Total liabilities	101,775,447	5,584	---	107,576	(68,059,073)	33,829,534
Fund balances (deficit):						
Nonspendable	65,103,432	---	---	---	---	65,103,432
Restricted	9,333,725	---	---	---	---	9,333,725
Committed	8,839,571	319,416	---	---	---	9,158,987
Unassigned	24,963,988	---	6,017,889	6,328,892	---	37,310,769
Total fund balances (deficit)	108,240,716	319,416	6,017,889	6,328,892	---	120,906,913
Total liabilities and fund balances (deficit)	$ 210,016,163	$ 325,000	$ 6,017,889	$ 6,436,468	$(68,059,073)	$ 154,736,447

Republic of Palau

GENERAL FUND

Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance (Deficit)
Year ended September 30, 2023

	General	1100 Scholarship	1150 Compact Section 213	4000 Local CIP	Elimination	Total
Revenues:						
Taxes	$ 48,013,579	$ ---	$ ---	$ ---	$ ---	$ 48,013,579
Net change in the fair value of investments	326,677	---	590,516	---	---	917,193
Fees and charges	10,839,064	---	---	---	---	10,839,064
Licenses and permits	8,793,204	936,997	---	---	---	9,730,201
Other	2,349,398	49,377	---	---	---	2,398,775
Total revenues	70,321,922	986,374	590,516	---	---	71,898,812
Expenditures:						
Current:						
Judicial Branch	2,864,161	---	---	---	---	2,864,161
Legislative Branch	5,748,498	---	---	---	---	5,748,498
Office of the President	1,300,428	---	---	---	---	1,300,428
Office of the Vice-President	513,247	---	---	---	---	513,247
Ministry of Finance	8,036,566	---	---	---	---	8,036,566
Ministry of State	3,901,413	---	---	---	---	3,901,413
Ministry of Human Resources, Culture, Tourism & Development	1,644,268	---	---	---	---	1,644,268
Ministry of Education	9,111,813	---	---	---	---	9,111,813
Ministry of Public Infrastructure & Industries	6,872,313	---	---	---	---	6,872,313
Ministry of Justice	6,471,861	---	---	---	---	6,471,861
Ministry of Health & Human Services	11,480,675	---	---	---	---	11,480,675
Ministry of Agriculture, Fisheries & the Environment	1,366,551	---	---	---	---	1,366,551
Boards, Commissions, and Authorities	1,125,241	---	---	---	---	1,125,241
State Block Grants	8,369,729	---	---	---	---	8,369,729
Independent Agencies	2,835,214	---	---	---	---	2,835,214
Payments to component units	6,916,583	---	---	---	---	6,916,583
Other Agencies and Activities	7,955,950	---	---	---	---	7,955,950
Education assistance	3,568,000	3,083,903	---	---	---	6,651,903
Debt service:						
Principal retirement	6,124,492	---	---	---	---	6,124,492
Interest	6,241,454	---	---	---	---	6,241,454
Total expenditures	102,448,457	3,083,903	---	---	---	105,532,360
Excess (deficiency) of revenues over (under) expenditures	(32,126,535)	(2,097,529)	590,516	---	---	(33,633,548)
Other financing sources (uses):						
Loan proceeds	31,492,412	---	---	---	---	31,492,412
Operating transfers in	52,149,785	2,493,000	---	---	(34,088,396)	20,554,389
Operating transfers out	(34,088,396)	---	---	---	34,088,396	---
Total other financing sources (uses), net	49,553,801	2,493,000	---	---	---	52,046,801
Net change in fund balances (deficit)	17,427,266	395,471	590,516	---	---	18,413,253
Fund balances (deficit) at beginning of year	90,813,450	(76,055)	5,427,373	6,328,892	---	102,493,660
Fund balances (deficit) at end of year	$ 108,240,716	$ 319,416	$ 6,017,889	$ 6,328,892	$ ---	$ 120,906,913

Republic of Palau

Grants Fund

September 30, 2023

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, 2023

	3000 COFA S322 Defense Sites Grants	3010 COFA S432(2A) Infrastructure Maintenance	3030 U.S. Federal Grants	3040 ROC Grants	3050 Other Non U.S. Grants	4010 U.S. Federal Capital Projects	4020 ROC Capital Projects	4030 Other Non U.S. Capital Projects	4040 COFA S432(5) Infrastructure Grants	Total
ASSETS										
Receivables, net:										
General	$ ---	$ ---	$ ---	$ ---	$ 64,198	$ ---	$ 1,564,398	$ ---	$ ---	$ 1,628,596
Federal agencies	---	4,000,000	6,430,633	---	---	1,665,922	---	---	2,412,889	14,509,444
Due from other funds	---	3,574,554	---	1,724,720	5,470,924	---	242,707	---	---	11,012,905
Advances	---	---	25,128	16,546	12,714	---	---	---	---	54,388
Prepaid items	---	---	695,874	29,386	42,360	---	182,403	---	1,690	951,713
Total assets	$ ---	$ 7,574,554	$ 7,151,635	$ 1,770,652	$ 5,590,196	$ 1,665,922	$ 1,989,508	$ ---	$ 2,414,579	$ 28,157,046
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	$ ---	$ ---	$ 882,246	$ 29,833	$ 181,802	$ 130,948	$ 1,535	$ ---	$ 1,699	$ 1,228,063
Contracts payable	---	376,054	31,444	---	142,336	---	1,631,037	---	---	2,180,871
Retention payable	---	33,229	---	---	50,449	---	350,554	---	---	434,232
Unearned revenues	---	---	1,122,130	---	2,407,472	---	---	---	---	3,529,602
Due to other funds	---	---	5,010,216	---	---	1,523,422	---	---	2,412,880	8,946,518
Accrued payroll and others	---	---	120,802	7,879	24,101	---	6,382	---	---	159,164
Total liabilities	---	409,283	7,166,838	37,712	2,806,160	1,654,370	1,989,508	---	2,414,579	16,478,450
Fund balances (deficit):										
Restricted	---	7,165,271	---	---	2,784,036	11,552	---	---	---	9,960,859
Committed	---	---	---	1,732,940	---	---	---	---	---	1,732,940
Unassigned	---	---	(15,203)	---	---	---	---	---	---	(15,203)
Total fund balances (deficit)	---	7,165,271	(15,203)	1,732,940	2,784,036	11,552	---	---	---	11,678,596
Total liabilities and fund balances	$ ---	$ 7,574,554	$ 7,151,635	$ 1,770,652	$ 5,590,196	$ 1,665,922	$ 1,989,508	$ ---	$ 2,414,579	$ 28,157,046

Republic of Palau

GRANTS FUND

Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances (Deficit)
Year ended September 30, 2023

	3000 COFA S322 Defense Sites Grants	3010 COFA S432(2A) Infrastructure Maintenance	3030 U.S. Federal Grants	3040 ROC Grants	3050 Other Non U.S. Grants	4010 U.S. Federal Capital Projects	4020 ROC Capital Projects	4030 Other Non U.S. Capital Projects	4040 COFA S432(5) Infrastructure Grants	Total
Revenues:										
Federal contributions	$ 981,286	$ 4,000,000	$ 16,595,348	$ ---	$ ---	$ 1,014,995	$ ---	$ ---	$ 1,963,456	$ 24,555,085
Other grants	---	---	---	1,938,718	6,015,611	---	9,724,783	---	---	17,679,112
Total revenues	981,286	4,000,000	16,595,348	1,938,718	6,015,611	1,014,995	9,724,783	---	1,963,456	42,234,197
Expenditures:										
Current:										
Office of the President	---	---	---	1,104,893	380,135	---	---	---	---	1,485,028
Office of the Vice President	---	---	---	---	6,864	---	---	---	---	6,864
Ministry of Finance	---	---	768,174	196,414	2,350,869	---	373,899	---	260,742	3,950,098
Ministry of Human Resources, Culture, Tourism & Development	---	---	1,530,991	---	---	---	329,269	---	---	1,860,260
Ministry of Education	---	---	2,294,891	---	417,818	---	---	---	---	2,712,709
Ministry of Public Infrastructure & Industries	---	1,208,458	---	---	---	1,014,995	2,450,602			4,674,055
Ministry of Justice	2,110,000	---	18,259	35,815	494,043	---	299,122	---	---	2,957,239
Ministry of Health & Human Services	---	---	11,801,311	131,785	158,620	---	6,042	---	---	12,097,758
Ministry of Agriculture, Fisheries & the Environment	---	---	181,230	36,380	1,753,817	---	---	---	---	1,971,427
Ministry of State	---	---	---	---	119,203	---	600,000	---	---	719,203
Payment to Component Units	---	---	---	---	---	---	---	---	1,702,714	1,702,714
State Governments	---	---	---	---	-	---	5,409,389	---	---	5,409,389
Independent Agencies	---	---	492	---	130,281	---	---	---	---	130,773
Other	---	---	---	---	45,923	---	---	---	---	45,923
Total expenditures	2,110,000	1,208,458	16,595,348	1,505,287	5,857,573	1,014,995	9,468,323	---	1,963,456	39,723,440
Excess (deficiency) of revenues over (under) expenditures	(1,128,714)	2,791,542	---	433,431	158,038	---	256,460	---	---	2,510,757
Other financing sources (uses):										
Operating transfers in	---	1,200,000	---	---	-	---	-	---	---	1,200,000
Operating transfers out	---	---	---	---	(2,600,000)	---	(258,114)	---	---	(2,858,114)
Total other financing sources (uses), net	---	1,200,000	---	---	(2,600,000)	---	(258,114)	---	---	(1,658,114)
Net change in fund balances (deficit)	(1,128,714)	3,991,542	---	433,431	(2,441,962)	---	(1,654)	---	---	852,643
Fund balances (deficit) at beginning of year	1,128,714	3,173,729	(15,203)	1,299,509	5,225,998	11,552	1,654	---	---	10,825,953
Fund balances (deficit) at end of year	$ ---	$ 7,165,271	$(15,203)	$ 1,732,940	$ 2,784,036	$ 11,552	$ ---	$ ---	$ ---	$ 11,678,596

Republic of Palau

Permanent Fund

September 30, 2023

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, 2023

	6000 Compact Section 211(f)	3020 Infrastructure Maintenance	Total
ASSETS			
Restricted assets:			
Investments	$ 269,618,362	$ 5,459,177	$ 275,077,539
Total assets	$ 269,618,362	$ 5,459,177	$ 275,077,539
FUND BALANCES			
Restricted	$ 269,618,362	$ 5,459,177	$ 275,077,539
Total fund balances	$ 269,618,362	$ 5,459,177	$ 275,077,539

Republic of Palau

Permanent Funds

Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances
Year ended September 30, 2023

	6000 Compact Section 211(f)	3020 Infrastructure Maintenance	Total
Revenue:			
Net change in the fair value of investments	$ 38,475,737	$ 533,435	$ 39,009,172
Other financing uses:			
Operating transfers out	(15,000,000)	---	(15,000,000)
Net change in fund balances	23,475,737	533,435	24,009,172
Fund balances at beginning of year	246,142,625	$ 4,925,742	$ 251,068,367
Fund balances at end of year	$ 269,618,362	$ 5,459,177	$ 275,077,539

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 and 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.

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.

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

<u>Road Maintenance Fund</u> - 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.

<u>Giant Clam Seed Sustainability Project Fund</u> - 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.

<u>Universal Access Revolving Fund</u> - This fund accounts for the receipt of any levy established for the specific purpose of funding universal access projects under the Bureau of Communications, and any other amounts provided by law.

Republic of Palau

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

Combining Balance Sheet

September 30, 2023

	1020 Drug Fine Collection	1040 Forfeited Property	1050 Hospital Trust	1060 Non Commun -icable Diseases	1070 Publication and Law Access Unit	1080 Operator License	1090 Fisheries Protection Trust	1110 EQPB Mitigation Trust	1120 Road Maintenance	1130 Giant Clam Seed Sustainability Project	1220 Universal Access Revolving	Total
ASSETS												
Receivables, net:												
General	$ ---	$ ---	$ ---	$ ---	$ ---	$ ---	$ 125,273	$ ---	$ ---	$ ---	$ ---	$ 125,273
Due from other funds	---	143,534	4,740,712	3,255,131	19,707	12,225	---	559,657	---	26,735	9,726	8,767,427
Investments	---	---	---	---	---	---	2,669,425	---	---	---	---	2,669,425
Prepaid items	---	2,600	23,676	---	---	---	---	---	70,260	---	---	96,536
Total assets	$ ---	$ 146,134	$ 4,764,388	$ 3,255,131	$ 19,707	$ 12,225	$ 2,794,698	$ 559,657	$ 70,260	$ 26,735	$ 9,726	$ 11,658,661
LIABILITIES AND FUND BALANCES (DEFICIT)												
Liabilities:												
Accounts payable	$ ---	$ 755	$ 721,217	$ 430,077	$ 1,316	$ 2,225	$ 14,111	$ 1,788	$ 42,410	$ 8,390	$ 4,745	$ 1,227,034
Due to other funds	537	---	---	---	---	---	1,621,638	---	474,245	---	---	2,096,420
Accrued payroll and others	---	---	---	---	---	---	---	---	3,455	---	---	3,455
Total liabilities	537	755	721,217	430,077	1,316	2,225	1,635,749	1,788	520,110	8,390	4,745	3,326,909
Fund balances (deficit):												
Committed	---	145,379	4,043,171	2,825,054	18,391	10,000	1,158,949	557,869	---	18,345	4,981	8,782,139
Unassigned	(537)	---	---	---	---	---	---	---	(449,850)	---	---	(450,387)
Total fund balances (deficit)	(537)	145,379	4,043,171	2,825,054	18,391	10,000	1,158,949	557,869	(449,850)	18,345	4,981	8,331,752
Total liabilities and fund balances	$ ---	$ 146,134	$ 4,764,388	$ 3,255,131	$ 19,707	$ 12,225	$ 2,794,698	$ 559,657	$ 70,260	$ 26,735	$ 9,726	$ 11,658,661

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, 2023

	1020 Drug Fine Collection	1040 Forfeited Property	1050 Hospital Trust	1060 Non Commun -icable Diseases	1070 Publication and Law Access Unit	1080 Operator License	1090 Fisheries Protection Trust	1110 EQPB Mitigation Trust	1120 Road Maintenance	1130 Giant Clam Seed Sustainability Project	1220 Universal Access Revolving	Total
Revenues:												
Taxes	$ ---	$ ---	$ ---	$ 925,734	$ ---	$ ---	$ ---	$ ---	$ 807,762	$ ---	$ ---	$ 1,733,496
Fees and charges	---	40,000	1,449,184	2,000	4,400	64,090	276,097	136,305		33,108	8,315	2,013,499
Net change in the fair value of investments	---	---	---	---	---	---	289,832	---	---	---	---	289,832
Licenses and permits	---	---	6,345	---	---	---	---	---	---	---	---	6,345
Total revenues	---	40,000	1,455,529	927,734	4,400	64,090	565,929	136,305	807,762	33,108	8,315	4,043,172
Expenditures:												
Current:												
Ministry of Justice	---	12,058	---	---	---	25,391	---	---	---	---	---	37,449
Ministry of Health and Human Services	---	---	3,355,087	1,036,981	---	---	---	---	---	---	---	4,392,068
Ministry of Agriculture, Fisheries and the Environment	---	---	---	---	---	---	---	56,408	---	31,987	---	88,395
Ministry of Public Infrastructure and Industries	---	---	---	---	---	---	---	---	381,673	---	---	381,673
Independent Agencies	---	60,383	---	---	---	---	---	---	---	---	---	60,383
Boards, Commissions, and Authorities	---	---	---	---	23,009	---	---	---	---	---	---	23,009
Other Agencies and activities	---	---	---	---	---	---	121,040	---	---	---	11,508	132,548
Total expenditures	---	72,441	3,355,087	1,036,981	23,009	25,391	121,040	56,408	381,673	31,987	11,508	5,115,525
Excess (deficiency) of revenues over (under) expenditures	---	(32,441)	(1,899,558)	(109,247)	(18,609)	38,699	444,889	79,897	426,089	1,121	(3,193)	(1,072,353)
Other financing uses:												
Operating transfers out	---	---	-	(257,475)	---	(38,800)	(2,400,000)	---	(1,200,000)	---	---	(3,896,275)
Total other financing sources (uses), net	---	---	-	(257,475)	---	(38,800)	(2,400,000)	---	(1,200,000)	---	---	(3,896,275)
Net change in fund balances	---	(32,441)	(1,899,558)	(366,722)	(18,609)	(101)	(1,955,111)	79,897	(773,911)	1,121	(3,193)	(4,968,628)
Fund balances (deficit) at beginning of year	(537)	177,820	5,942,729	3,191,776	37,000	10,101	3,114,060	477,972	324,061	17,224	8,174	13,300,380
Fund balances (deficit) at end of year	$(537)	$ 145,379	$ 4,043,171	$ 2,825,054	$ 18,391	$ 10,000	$ 1,158,949	$ 557,869	$(449,850)	$ 18,345	$ 4,981	$ 8,331,752

Republic of Palau

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

Year ended September 30, 2023

	Original	Final	Actual	Variance
Revenues:				
Local revenue	$ 49,529,000	$ 56,015,691	$ 60,761,567	$ 4,745,876
Net change in the fair value of investments	---	---	(106,904)	(106,904)
Total revenues	49,529,000	56,015,691	60,654,663	4,638,972
Expenditures - budgetary basis:				
Office of the President:				
President's Office	842,625	842,625	842,553	72
Official Expenses	23,000	23,000	22,909	91
Indirect Cost Recoveries	5,327	5,327	75,939	(70,612)
Administrative Overhead	---	---	39,178	(39,178)
Grants Coordinator	68,600	68,600	68,562	38
National Security	90,000	90,000	89,969	31
Council of Chiefs	136,000	136,000	133,616	2,384
Presidential Stipend	45,000	45,000	45,000	---
Total Office of the President	1,210,552	1,210,552	1,317,726	(107,174)
Office of the Vice-President:				
Vice-President's Office	291,689	291,689	291,343	346
National Emergency Management Office	233,000	233,000	229,013	3,987
Total Office of the Vice-President	524,689	524,689	520,356	4,333
Ministry of Finance:				
Office of the Minister	58,000	58,000	57,750	250
CROSS Act	1,750	477,511	458,741	18,770
PPEF Payments	---	563,442	509,159	54,283
Palau Energy and Water Administration	135,000	135,000	131,943	3,057
Economic Diversification Initiatives	100,000	100,000	96,505	3,495
Administrative Overhead	2,600	2,600	30,198	(27,598)
Information System Support Service	216,014	216,014	212,901	3,113
Bureau of National Treasury	952,952	952,952	951,414	1,538
Bureau of Budget and Planning	657,099	657,099	653,084	4,015
Bureau of Revenue and Taxation	720,000	745,000	743,151	1,849
Bureau of Customs and Border Protection	1,857,000	1,932,000	1,929,696	2,304
Total Ministry of Finance	4,700,415	5,839,618	5,774,542	65,076
Ministry of State:				
Office of the Minister	58,000	58,000	57,750	250
Consulate Office in Guam	116,000	116,000	114,315	1,685
Embassy in Washington D.C.	292,000	292,000	289,587	2,413
Embassy in Tokyo, Japan	664,000	647,000	646,916	84
Embassy in Taipei, Taiwan	230,000	264,000	263,526	474
Embassy in Manila, Philippines	136,000	136,000	135,180	820
United Nations Representative Office	350,000	333,000	321,815	11,185
Office of the Public Defender	327,000	327,000	320,204	6,796
Bureau of Trade and Foreign Affairs	423,424	418,424	417,229	1,195
Bureau of Domestic Affairs	180,000	175,000	171,634	3,366
Passport Office	99,000	99,000	83,696	15,304
International Organizations Obligations	311,000	311,000	310,227	773
Southwest Islands Field Trips/Sonsorol and Hatohobei	279,000	279,000	279,000	---
Hawaii Consulate Office	65,000	65,000	63,904	1,096
Bureau of Archives and Media	328,325	338,325	335,094	3,231
Total Ministry of State	3,858,749	3,858,749	3,810,077	48,672

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, 2023

	Original	Final	Actual	Variance
Expenditures - budgetary basis, continued:				
Ministry of Human Resources, Commerce, Tourism and Development:				
Office of the Minister	58,000	58,000	57,750	250
Olchotel Belau Fair	27,000	27,000	24,755	2,245
Palau Small Business Dev Center	55,000	55,000	55,000	---
Youth Congress	30,000	30,000	1,540	28,460
WIOA Grant Contribution	84,000	84,000	26,350	57,650
Office of Labor Compliance	351,500	351,500	340,741	10,759
Bureau of Human Resources	675,333	675,333	647,358	27,975
Bureau of Tourism	232,000	232,000	212,030	19,970
Bureau of Development	129,000	129,000	90,200	38,800
Bureau of Cultural and Historical Preservation	202,000	202,000	198,946	3,054
Total Ministry of Human Resources, Commerce, Tourism and Development	1,843,833	1,843,833	1,654,670	189,163
Ministry of Education:				
Office of the Minister	58,000	58,000	54,750	3,250
School Books, Supplies and Instructional Equipment	599,784	599,784	558,212	41,572
Bureau of Curriculum and Instruction	464,754	464,754	437,075	27,679
Bureau of School Operations	7,033,232	7,033,232	7,022,875	10,357
Food Services Program	1,146,000	1,146,000	1,077,450	68,550
Total Ministry of Education	9,301,770	9,301,770	9,150,362	151,408
Ministry of Public Infrastructure and Industries:				
Office of the Minister	58,000	58,000	57,750	250
FAA, UNDP, and Other Match	354,000	319,000	32,035	286,965
Bureau of Communication	135,000	135,000	126,866	8,134
Bureau of Marine Transportation	242,000	257,000	243,855	13,145
Bureau of Aviation	1,974,178	1,974,178	1,969,976	4,202
Bureau of Land and Survey	812,500	797,500	790,436	7,064
Bureau of Public Works	1,489,955	1,489,955	1,483,807	6,148
National Capitol Electricity/Maintenance	1,550,000	1,715,000	1,686,970	28,030
Total Ministry of Public Infrastructure and Industries	6,615,633	6,745,633	6,391,695	353,938
Ministry of Justice:				
Office of the Attorney General	714,041	684,041	680,577	3,464
Bureau of Public Safety	3,949,700	4,299,700	4,289,773	9,927
Bureau of Maritime Security and FWP	1,233,000	1,263,000	1,253,663	9,337
Total Ministry of Justice	5,896,741	6,246,741	6,224,013	22,728
Ministry of Health and Human Services:				
Palau Severely Disabled Assistance Fund	719,000	734,000	731,050	2,950
Bureau of Pubic Health and Human Services	1,798,405	1,783,405	1,528,122	255,283
Bureau of Hospital Services	6,780,487	6,980,487	6,838,284	142,203
Office of the Minister	58,000	58,000	57,750	250
Hemodialysis	630,539	630,539	136,873	493,666
Bureau of Health System Administration	1,092,000	1,392,000	1,292,887	99,113
Total Ministry of Health and Human Services	11,078,431	11,578,431	10,584,966	993,465
Ministry of Agricutlure, Fisheries and Environment:				
Office of the Minister	58,000	58,000	57,750	250
Bureau of Fisheries	660,000	660,000	635,238	24,762
Bureau of Environment	100,000	100,000	78,921	21,079
Bureau of Agriculture	547,000	547,000	540,585	6,415
Total Ministry of Agriculture, Fisheries, and Environment	1,365,000	1,365,000	1,312,494	52,506
Total Executive Branch	46,395,813	48,515,016	46,740,901	1,774,115
Judicial Branch:				
Judiciary	2,873,000	2,873,000	2,864,161	8,839
Total Judicial Branch	2,873,000	2,873,000	2,864,161	8,839

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, 2023

	Original	Final	Actual	Variance
Expenditures - budgetary basis, continued:				
Olbiil Era Kelulau:				
Senate	2,179,310	2,279,310	2,166,557	112,753
Senate Legal Counsel Office	193,475	193,475	174,517	18,958
House of Delegates	2,660,402	2,751,902	2,676,794	75,108
House Legal Counsel Office	193,000	201,500	198,828	2,672
Joint Staff	310,375	320,375	300,450	19,925
Palau Japan Parliamentary Friendship	35,000	125,000	87,709	37,291
Electricity for Koror Olbiil Era Kelulau Building	30,000	31,575	31,571	4
Association of Pacific Island Legislatures	15,000	14,425	14,012	413
Inter-Parliamentary Union	15,000	14,000	12,052	1,948
Pacific Islands Development Bank	10,150	10,150	6,886	3,264
Total Legislative Branch	5,641,712	5,941,712	5,669,376	272,336
Boards, Commissions and Authorities:				
Foreign Investment Board	195,000	176,000	114,198	61,802
Palau Election Commission	289,963	316,963	276,595	40,368
COFA Board of Trustees	45,000	41,000	29,419	11,581
Palau Public Lands Authority	121,000	116,000	101,383	14,617
Parole Board	45,000	41,000	33,950	7,050
Palau Housing Authority	135,000	135,000	135,000	---
Financial Investigation Unit	159,315	159,315	158,925	390
Financial Institutions Commission	34,000	34,000	26,826	7,174
Ethics Commission	46,000	44,000	31,390	12,610
Palau Code Commission	53,000	48,000	39,342	8,658
Language Commission	49,000	45,000	37,259	7,741
Total Boards, Commissions and Authorities	1,172,278	1,156,278	984,287	171,991
State Block Grants	8,456,000	8,456,000	8,369,729	86,271
Independent Agencies:				
Office of the Public Auditor	555,495	530,495	473,310	57,185
Office of the Special Prosecutor	274,000	274,000	252,255	21,745
Palau Environmental Quality Protection Board	411,400	436,400	351,525	84,875
National Postal Service	400,000	400,000	399,435	565
Palau Visitors Authority	1,098,000	1,098,000	1,098,000	---
National Aviation Administration	267,000	257,000	249,724	7,276
Total Independent Agencies	3,005,895	2,995,895	2,824,249	171,646
Other Agencies and Activities:				
Palau International Coral Reef Center	360,000	360,000	360,000	---
Palau National Museum	234,000	234,000	233,956	44
Micronesian Legal Services	125,000	125,000	125,000	---
Palau Community Action Agency	273,000	310,000	310,000	---
Civic Action Team Share	250,000	250,000	250,000	---
Head Start Program	126,000	126,000	126,000	---
Apprentice Program	50,000	50,000	50,000	---
PNOC and Sports Organizations	159,000	159,000	144,231	14,769
Palau Red Cross	25,000	25,000	25,000	---
Total Other Agencies and Activities	1,602,000	1,639,000	1,624,187	14,813
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	---

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, 2023

	Original	Final	Actual	Variance
Expenditures - budgetary basis, continued:				
Other Appropriations:				
Wage and Salary Increase-National Government	2,724,323	2,724,323	2,425,272	299,051
Wage and Salary Increase-National Government	1,675,677	1,675,677	1,282,649	393,028
Wage and Salary Increase	4,400,000	4,400,000	3,707,921	692,079
Ngardok Lake Clean Up	25,000	25,000	25,000	---
Mechesil Belau Conference	---	100,000	100,000	---
Koror State Solid Waste Management	---	250,000	250,000	---
Disaster Assistance to Guam	---	250,000	250,000	---
Economic Development Plan	---	100,000	---	100,000
Angaur State-Marine Transport Expense	---	15,000	15,000	---
Kayangel State-Marine Transport Expense	---	15,000	15,000	---
Peleliu State-Marine Transport Expense	---	15,000	---	15,000
Debt Service payments	---	5,397,488	5,397,488	---
Total Other Appropriations	4,425,000	10,567,488	9,760,409	807,079
Total expenditures	77,139,698	85,712,389	82,405,299	3,307,090
Deficiency of revenues under expenditures	(27,610,698)	(29,696,698)	(21,750,636)	7,946,062
Other financing sources (uses):				
Loan proceeds	---	---	1,492,412	1,492,412
Operating transfers in:				
Compact Section 211(f) Trust Fund	15,000,000	15,000,000	15,000,000	---
Debt Service Fund	15,000,000	15,000,000	15,000,000	---
Grants Fund	2,600,000	2,600,000	2,600,000	---
PAN Fund	521,000	521,000	---	(521,000)
Cyclical Reserve Fund	3,840,000	6,126,000	5,626,000	(500,000)
Nonlapsting Fund	---	250,000	771,000	521,000
Operator Lincese Fund	---	---	38,800	38,800
Total other financing sources	36,961,000	39,497,000	40,528,212	1,031,212
Operating transfers out:				
National Scholarship Fund	(2,003,000)	(2,003,000)	(2,003,000)	---
Debt Service Fund	(4,587,000)	(4,587,000)	(4,574,795)	12,205
Nonlapsing Fund	(2,030,000)	(2,480,000)	(2,335,926)	144,074
Climate Resilience Fund	---	---	(464,824)	(464,824)
Cyclical Reserve Fund	(888,000)	(888,000)	(929,647)	(41,647)
Total other financing uses	(9,508,000)	(9,958,000)	(10,308,192)	(350,192)
Total other financing sources (uses), net	27,453,000	29,539,000	30,220,020	681,020
	(157,698)	(157,698)	8,469,384	8,627,082
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	157,698	157,698	387,176	229,478
Net change in fund balance	$ ---	$ ---	$ 8,856,560	$ 8,856,560

Republic of Palau

Combining Schedule of Expenditures By Object
Governmental Funds

Year Ended September 30, 2023

	General	Special Revenue: Grants	Permanent: Compact Funds	Other Governmental Funds	Total
Expenditures:					
Salaries and wages	$ 43,500,658	$ 7,477,874	$ ---	$ 197,769	$ 51,176,301
Professional and contractual services	1,265,080	4,247,168	---	4,677	5,516,925
Repairs and maintenance	884,246	100,062	---	31,821	1,016,129
Rentals	872,123	2,602,597	---	13,018	3,487,738
Buildings	79,134	---	---	---	79,134
Construction	267,591	11,402,387	---	17,914	11,687,892
Insurance	35,169	53,339	---	---	88,508
Advertising	51,127	95,182	---	4,248	150,557
Travel	1,399,369	2,482,867	---	60,782	3,943,018
Cleaning services	437,707	60,112	---	---	497,819
Communications and postage	976,489	266,668	---	3,373	1,246,530
Supplies and materials	1,805,682	2,396,487	---	366,110	4,568,279
Medical drugs	411,462	4,825	---	959,537	1,375,824
Medical supplies	414,442	294,805	---	1,638,826	2,348,073
Petroleum products	1,185,240	343,468	---	73,955	1,602,663
Food stuffs	1,470,577	234,849	---	3,984	1,709,410
Books and periodicals	247,219	38,032	---	---	285,251
Utilities	5,682,079	143,838	---	1,200	5,827,117
Equipment and machinery	71,318	1,174,873	---	69,908	1,316,099
Vehicles	171,917	161,424	---	62,338	395,679
Computer software	1,149	490,608	---	---	491,757
Training	5,236	74,939	---	---	80,175
Conference	13,551	558,394	---	---	571,945
Administrative costs	36,654	30,747	---	---	67,401
Dues, fees and registration	539,621	107,506	---	65,572	712,699
Grants and contributions	37,600	---	---	-	37,600
Payments of allotments/benefits	25,491,406	3,494,485	---	1,151,848	30,137,739
Freight	28,683	78,070	---	208,449	315,202
Student loans	1,505,825	---	---	---	1,505,825
Scholarships	1,193,651	---	---	---	1,193,651
Compensation	865,523	524,443	---	7,930	1,397,896
Allowance	20,358	---	---	---	20,358
Employee incentive awards	36,950	950	---	1,000	38,900
Donations	765,111	495,840	---	2,000	1,262,951
Representation and entertainment	104,015	11,415	---	---	115,430
Bank service fee	5,828	---	---	---	5,828
Principal retirement	6,124,492	---	---	---	6,124,492
Beverage Container Redemption	1,012,764	---	---	---	1,012,764
Palau Goods and Services Tax	240,987	275,186	---	166,866	683,039
Interest charges	6,241,454	---	---	---	6,241,454
Miscellaneous	32,873	---	---	2,400	35,273
Total expenditures	$ 105,532,360	$ 39,723,440	$ -	$ 5,115,525	$ 150,371,325