

**PALAU PUBLIC UTILITIES CORPORATION
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)**

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

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Public Utilities Corporation:

Report on Financial Statements

We have audited the accompanying financial statements of the Palau Public Utilities Corporation (PPUC), a component unit of the Republic of Palau, which comprise the statements of net position as of September 30, 2021 and 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palau Public Utilities Corporation as of September 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Going Concern

The accompanying financial statements have been prepared assuming PPUC will continue as a going concern. As discussed in Note 14 to the financial statements, the Water and Wastewater Operations incurred an operating loss of \$5,004,453 and \$4,673,281 for the years ended September 30, 2021 and 2020, respectively, and the Company as a whole had a loss of \$10,275,708 for the year ended September 30, 2021. Management plans in regard to these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

COVID-19

PPUC's operations have been affected by the recent and ongoing outbreak of the coronavirus disease. As a result of the spread of the COVID-19 coronavirus, governments worldwide implemented actions to restrict travel and economic activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 26 as well as the Schedule of Proportional Share of the Net Pension Liability on page 52 and the Schedule of Pension Contributions on page 53 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Statement of Net Position, Combining Statement of Revenues, Expenses and Changes in Net Position, Combining Statement of Cash Flows, and Schedule of Revenues and Expenses as of and for the year ended September 30, 2021 on pages 54 through 57 are presented for purposes of additional analysis and are not a required part of the financial statements. The Combining Statement of Net Position, Combining Statement of Revenues, Expenses and Changes in Net Position, Combining Statement of Cash Flows, and Schedule of Revenues and Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Net Position, Combining Statement of Revenues, Expenses and Changes in Net Position, Combining Statement of Cash Flows, and Schedule of Revenues and Expenses are fairly stated, in all material respects, in relation to the financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2022, on our consideration of PPUC'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 PPUC'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 PPUC's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

December 19, 2022

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) presents the Palau Public Utilities Corporation's financial performance during the fiscal year ended September 30, 2021. The discussion and analysis provides users with detailed and comparative information enabling them to assess the individual performance of both Electric Power Operations (EPO) and Water and Wastewater Operations (WWO) and appreciate the change in financial position and critical financial indicators as a result of the current year's operations. The analysis is to be read in conjunction with the audited statements as of and year ended September 30, 2021, which follow this section.

In preparing this MD&A, forward-looking remarks about operational and/or financial matters may be used. Such remarks are usually identified by words such as "expected", "could", "possible", etc.; and users should not assume such remarks constitute guarantees.

COMPANY OVERVIEW

The Public Utilities Corporation (PUC) was created on July 6, 1994. PUC was mandated by law to plan, develop and execute an electrification plan for the entire Republic of Palau. On June 6, 2013, a Republic of Palau law (RPPL) No. 9-04, was signed and consolidated two independent public corporations; the Palau Water & Sewer Corporation (PWSC) and the Palau Public Utilities Corporation (PPUC) into one entity: The Palau Public Utilities Corporation (PPUC or the Corporation). The intent of the consolidation was to generate cost efficiencies through unifying the management, administration and other operational support functions of the separate corporations, while at the same time ensuring the finances of the entities remained free from cross-subsidization; cost-loading; intermingling of revenues or expenses; or other practices that might misleadingly affect the underlying financial or operational performance of either of the entities.

After the merger, about 112 employees from the National Government's water and wastewater operation transitioned to the new PPUC. From an electrical utility with 149 employees, PPUC expanded to a total workforce of over 296 employees as of to date, delivering both electricity and water/wastewater operations to the entire Republic of Palau.

Water and Wastewater operations are treated as a separate business segment from Electric operations, and has its own organizational chart delineating a chain of management that is separate from the electrical operations. Shared administrative and management costs and expertise are allocated (58% for EPO and 42% for WWO) between the two separate business segments and in no way are utilized or otherwise intermingle the finances of each other.

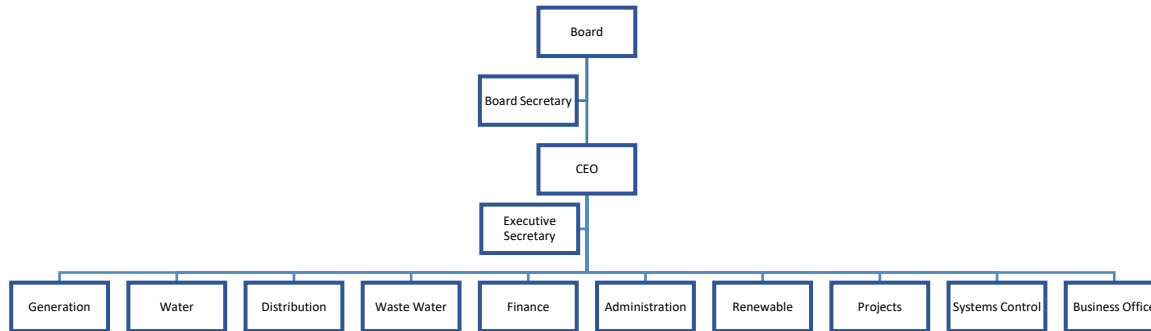
An organizational chart was created and adopted by the Board of Directors. The organizational chart has been modified and improved over time to reflect the contemporary best practice in delivery of utility services' optimal operational efficiency and adherence to the requirements of RPPL No. 9-04 to share administrative and management structures and maintain separation of individual operations. The current organizational chart is depicted below.

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Management's Discussion and Analysis
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COMPANY OVERVIEW, CONTINUED

Chart 1. Current Organizational Chart



PPUC is overseen by seven (7) members of the Board of Directors appointed by the President of the Republic of Palau with advice and consent of the Palau National Senate. The Board of Directors is entrusted to exercise the corporate powers of PPUC vested in them under RPPL No. 9-04. Ultimately this includes the hiring of a Chief Executive Officer (CEO) with demonstrated experience and skills in the operation of finances, personnel and management of a utility company. The CEO is responsible for taking charge and controlling the operations of PPUC, enforcing its rules and regulations, and acting in concert with the directions of the Board.

FINANCIAL STATEMENTS

The PPUC annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows together provide an overview of the financial activities and performance of the Corporation.

The Statement of Net Position includes all of PPUC's investments in resources and the obligations to creditors. The information from this statement is used as the basis for computing investment rate of return, for assessing the liquidity and financial flexibility of the Corporation, as well as for evaluating the corporate capital structure. The Statement of Revenues, Expenses, and Changes in Net Position contains all of the current (2021) fiscal year's revenues, and expenses; measures the success of the Corporation's operations compared to the prior fiscal year; and shows the extent to which PPUC successfully recovered costs through tariffs and other charges. External grant donors and financial institutions review this statement to determine the financial performance of the Corporation. The Statement of Cash Flows provides information on corporate cash inflows and outflows, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities. The Statement provides insight into aspects of cash management, including the sources and uses of cash, and the net change in cash balance during the fiscal year.

ELECTRIC POWER OPERATIONS

Electric Power Operations (EPO) has succeeded in providing power services throughout the Republic of Palau. EPO operates five (5) power stations throughout the Republic. The two largest power stations are located in Malakal and Aimeliik, feeding the Koror-Babeldaob (KB) grid that services roughly 95% of Palau's population. The remaining three (3) smaller power systems Peleliu, Angaur and Kayangel are located in remote islands, only accessible by boat, servicing less than five hundred people.

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ELECTRIC POWER OPERATIONS, CONTINUED

The table 1 below shows the generators in each power stations, capacity and their area of coverage:

Power Stations	Generators	Capacity	Coverage
Aimeliik	Mitsubishi 6	5.0 mw	Koror-Babeldaob
	Mitsubishi 7	5.0 mw	Koror-Babeldaob
Malakal	Niigata 14	5.0 mw	Koror-Babeldaob
	Niigata 15	5.0 mw	Koror-Babeldaob
	Mitsubishi 13	2.5 mw	Koror-Babeldaob
	Cat 2	1.2 mw	Koror-Babeldaob
	Cat 3	1.2mw	Koror-Babeldaob
	Mitsubishi 16	500 kw	Koror-Babeldaob
	Mitsubishi 17	500 kw	Koror-Babeldaob
	Mitsubishi 18	500kw	Koror-Babeldaob
	Mitsubishi 19	500kw	Koror-Babeldaob
Peleliu	Yanmar 1	750 kw	Peleliu
	Yanmar 2	750 kw	Peleliu
	Perkins 4 (FGW)	275 kw	Peleliu
	Hatz 1	28 kw	Peleliu
	Hatz 2	28 kw	Peleliu
	Hatz 3	28 kw	Peleliu
	Hatz 4	28 kw	Peleliu
	Hatz 5	28 kw	Peleliu
	Hatz 6	28 kw	Peleliu
	Cummins 3	275 kw	Peleliu
Perkins 4	275 kw	Peleliu	
Angaur	Cummins 3	120 kw	Angaur
	Cummins 4	120 kw	Angaur
	Perkins 2	120 kw	Angaur
	Hatz 1	28 kw	Angaur
	Hatz 2	28 kw	Angaur
	Hatz 3	28 kw	Angaur
	Hatz 4	28 kw	Angaur
Kayangel	Cummins 6	75 kw	Kayangel
	Cummins 7	100 kw	Kayangel
	Cummins 8	100 kw	Kayangel

The Renewable Energy Department (RED) is tasked with research, exploration, and development of PPUC's renewable energy sector. As of to date, total capacity of all solar systems combined is at 4.39 Mega Watt hour peak (mWp.) Included in these are the Ngerulmud Capitol Building in Melekeok, Palau, International Airport in Airai, The National Track and Field, the Palau Community College (PCC) Cafeteria, and the National Development Bank of Palau (NDBP), where PPUC had an existing Memorandum of Agreement to take the responsibility for the management and maintenance of the Solar Photovoltaic (PV) Systems. The energy crediting mechanism to these solar customers is in accordance with the Net Metering Act (RPPL 8-39) and Palau Energy Administration (PEA) Net Metering Regulations. In 2018, a grant from New Zealand was received by PPUC for an installation of a solar hybrid micro-grid on the State of Kayangel, which should save them fuel costs; and 113.11kw solar panels at Palau Community College (PCC). The construction started in FY 2019 and was fully operational by March 2020. In FY 2020 the total four (4) additional solar installations are: Kayangel Power Station (65.7-kilowatt hour peak (kWp)); Palau Community College (113.11 kWp); Belau National Museum (23.85 kWp); and Angaur Power Station (100 kWp-Hybrid System.)

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Management’s Discussion and Analysis
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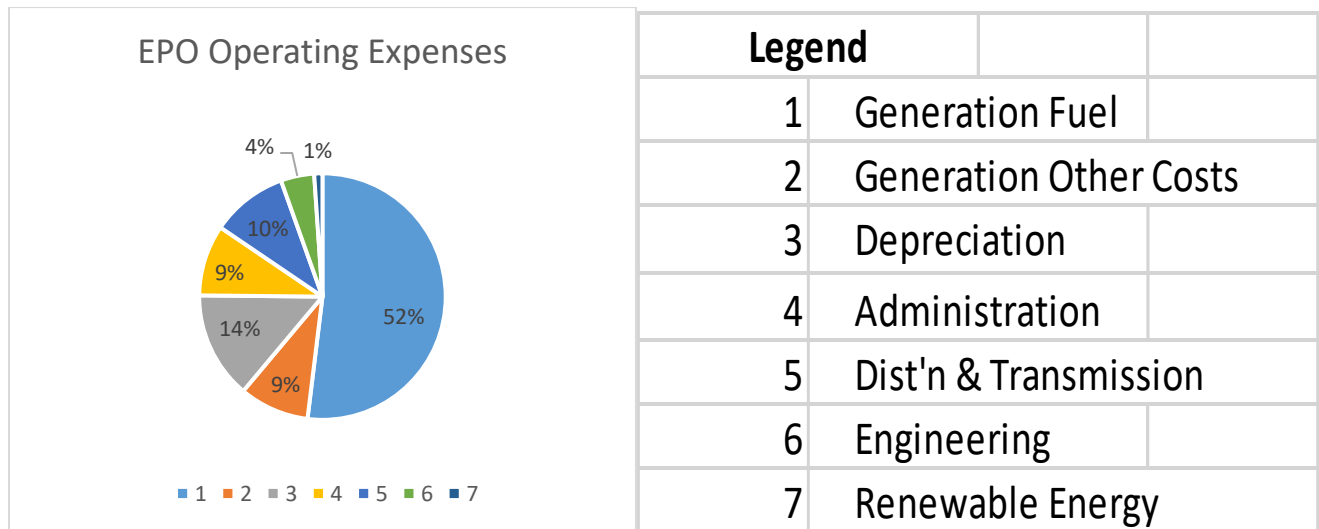
ELECTRIC POWER OPERATIONS, CONTINUED

These are certain measures PPUC has undertaken and continues to develop and implement in order to reduce fuel expenses. As a matter of fact, the procurement, engineering and construction for a Solar Photovoltaic (PV) Independent Power Producer (IPP) is on-going. This endeavor is expected to save PPUC fuel and generation costs, including maintenance. Should this materialize, it would provide PPUC with 20% of its energy generation from a renewable energy source as part of phase 1 of the project and 45% of its generation from a renewable energy source as part of phase 2. However, it is important to note that it is expected that significant human resources and capacity development will be needed in order to transition to green and clean energy.

In addition to energy alternatives, PPUC continues its efforts for austerity measures, fuel efficiency and reduction of energy losses with upgrades to its aging generation and electrical transmission and distribution infrastructure and equipment. PPUC plans and implements regular maintenance on its transmission and distribution lines, hardware and equipment including substations and its power generators. Recent system upgrades in the transmission and distribution lines are done from International Airport to Ngerikiil, Airai and from Aimeliik Power Plant to Airai Substation. Constant monitoring, servicing and maintenance of power transformers, substation and substation equipment are also done in order to minimize power interruptions. Regular checking for theft of electrical services is done to reduce non-technical losses. PPUC explores and implements all necessary means in order to reduce the system losses with an effective loss reduction program in line with regional and international standards.

The chart below shows the ratio of the total operating expenses of the EPO for FY 2021 and the generation/system loss of PPUC since FY 2016 up to FY 2021.

Chart 2. Total Operating Expense of EPO:



It shows that almost 52% of the operating expenses are for generation fuel.

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ELECTRIC POWER OPERATIONS, CONTINUED

Table 2. Generation/System loss of PPUC from FY 2016 to FY 2021

kWh	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Generated	85,717,446	86,115,514	89,429,875	88,615,682	86,411,882	82,770,073
Billed	70,928,769	74,032,703	75,429,455	74,824,795	74,965,127	71,389,139
Billed %	83%	86%	84%	84%	87%	86%
kWh Loss	14,788,677	12,082,811	14,000,420	13,790,887	11,446,755	11,380,934
Loss %	17%	14%	16%	16%	13%	14%

In early 2020, the Republic of Palau National Congress authorized the Executive Branch to enter into loan negotiations with the Asian Development Bank (ADB) in the amount of \$10 million for policy reform programs and revenue enhancement actions for the National Utility. The loan program is a Policy-based loan (PBL) available in two tranches of \$5 million each. Each tranche would be released upon completion of required policy reforms through two Subprograms. In December 10, 2020, ADB and the Republic of Palau (ROP) executed a loan agreement for the first tranche of \$5 million. The purpose of the this first tranche of the loan is for ROP, as the borrower, to make available to PPUC necessary financing for revenue enhancement projects that include modification of the Niigata control system for the Malakal Power Plant base-load generators and for the conversion of 827 customer accounts from a conventional metering system to a prepaid metering system. This will further reduce uncollectible receivables and fund critical WWO major improvements in order to prevent major water facility breakdowns. The total of the first tranche of the loan amount is \$5 million, \$3.7 million for EPO and \$1.3 million for WWO. On July 30, 2021, a subsidiary loan agreement was executed between PPUC and MOF with the funds (first tranche of \$5 million) received by PPUC in September 2021.

This PBL provides PPUC assistance to develop and implement certain corporate reforms in order to strengthen PPUC financial management together with a comprehensive tariff study for PPUC. Among these reform policies under the first Subprogram that the Board approved were: PPUC Corporate Governance; Audit Risk and Compliance Procedures; Corporate Gender Strategy; Accounting Policies and Procedures, PPUC Revenue Enhancement Action Plan, Electricity Tariff Petition to the Palau Energy Administration (PEA), and a Human Resource Policy Manual. A new base tariff for EPO was established and approved by the PEA. PPUC conducted public hearings regarding the new energy rate in all Republic of Palau States from February to March 2021 and in accordance with the rate making requirements as mandated in the RPPL No. 9-4, RPPL No.10-23 and applicable PEA Regulations. The new base tariff took effect on June 1, 2021.

Due to the significant decrease of fuel prices during the COVID-19 pandemic period in FY 2020 by almost 60%, the fuel rate during January 2021-June 2021 was low because of the 6 - month prior quarter adjustments in the AFPAC. With this, the Management and Board established a fuel adjustment threshold during volatile economic situations where fuel prices drop again significantly. The threshold was approved by the PEA and was implemented together with the base rate on June 1, 2021 after the completion of the public hearings in all states. This means that PPUC cannot charge a fuel rate below the threshold of \$0.14.

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ELECTRIC POWER OPERATIONS, CONTINUED

The table below shows the new base tariff and the effective quarterly AFPAC in FY 2021.

Table 3: EPO (Energy) Tariff Schedule

Customer Class	Kwh	Energy Rate
Residential		
Tier 1	0 - 150	\$0.051
Tier 2	151 - 500	\$0.125
Tier 3	501+	\$0.170
Commercial/ROP/Gov	All users	\$0.170

Table 4: Effective quarterly AFPAC

FY 2021 Per Quarter	Fuel Rate
1 st QTR (October-December 2020)	\$.122 cents/kWh
2 nd QTR (January-March 2021)	\$.037 cents/kWh
3 rd QTR (April-June 2021)	\$.044 cents/kWh
4 th QTR (July-September 2021)	\$.150 cents/kWh

The tables and charts below show the operational performance of PPUC:

Table 5. Kilowatt Hour (kWh) Generated vs kWh Billed vs Fuel Consumption

kWh	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Generated	85,717,446	86,115,514	89,429,875	88,615,682	86,411,882	82,770,073
Billed	70,928,769	74,032,703	75,429,455	74,824,795	74,965,127	71,389,139
Fuel Consumption	5,768,507	5,767,248	5,952,863	5,973,160	5,803,225	5,729,255
% Inc/(Dec) in Generation	3.14%	0.46%	3.85%	-0.91%	-2.49%	-4.21%
% Inc/(Dec) in Billing	5.98%	4.38%	1.89%	-0.80%	0.19%	-4.77%
% Inc/(Dec) in Fuel Consumption	0.48%	-0.02%	3.22%	0.34%	-2.84%	-1.27%

**PALAU PUBLIC UTILITIES CORPORATION
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Years Ended September 30, 2021 and 2020

ELECTRIC POWER OPERATIONS, CONTINUED

Chart 3: Kilowatt Hour (kWh) Generated vs kWh Billed

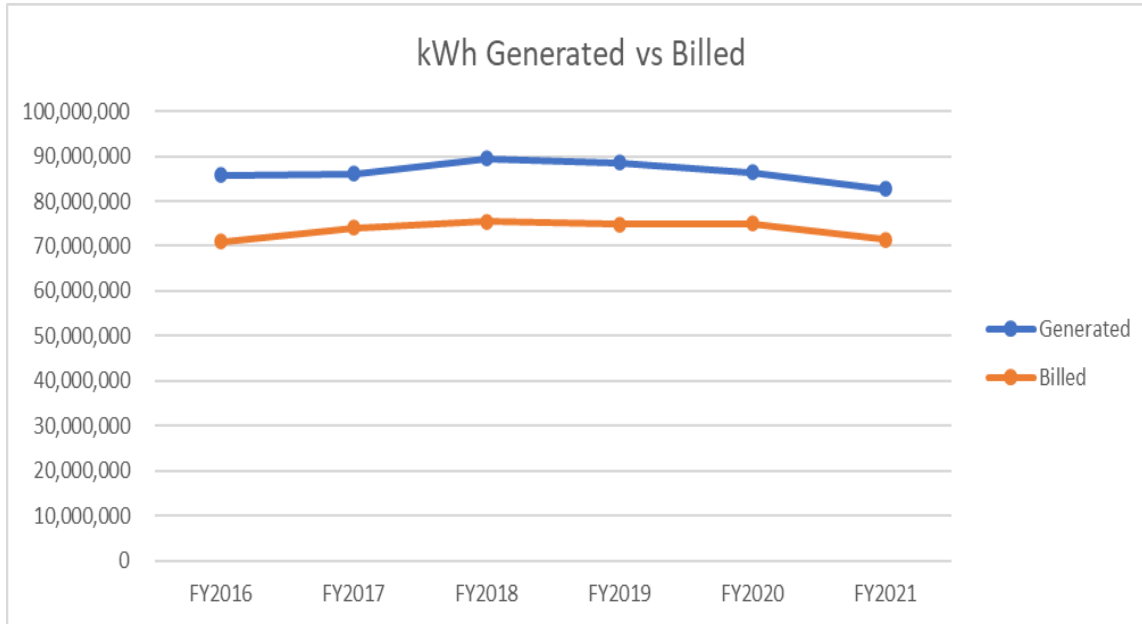
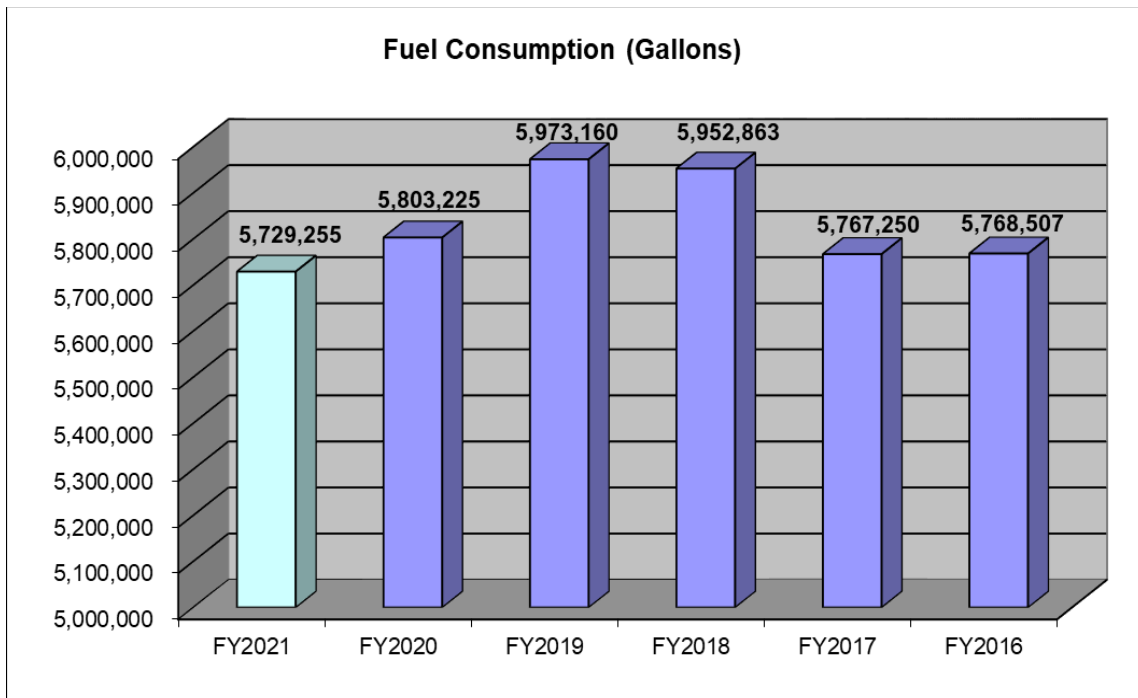


Chart 4: Fuel Consumption



**PALAU PUBLIC UTILITIES CORPORATION
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ELECTRIC POWER OPERATIONS, CONTINUED

kWh generated, kWh billed, and fuel consumption decreased by 4.21%, 4.77% and 1.27% respectively. This was the result of closure of some establishments due to the pandemic. All austerity measures were implemented by PPUC to cut costs without sacrificing the quality of services.

The charts below show the fuel efficiency and change in fuel price.

Chart 5: Fuel Efficiency

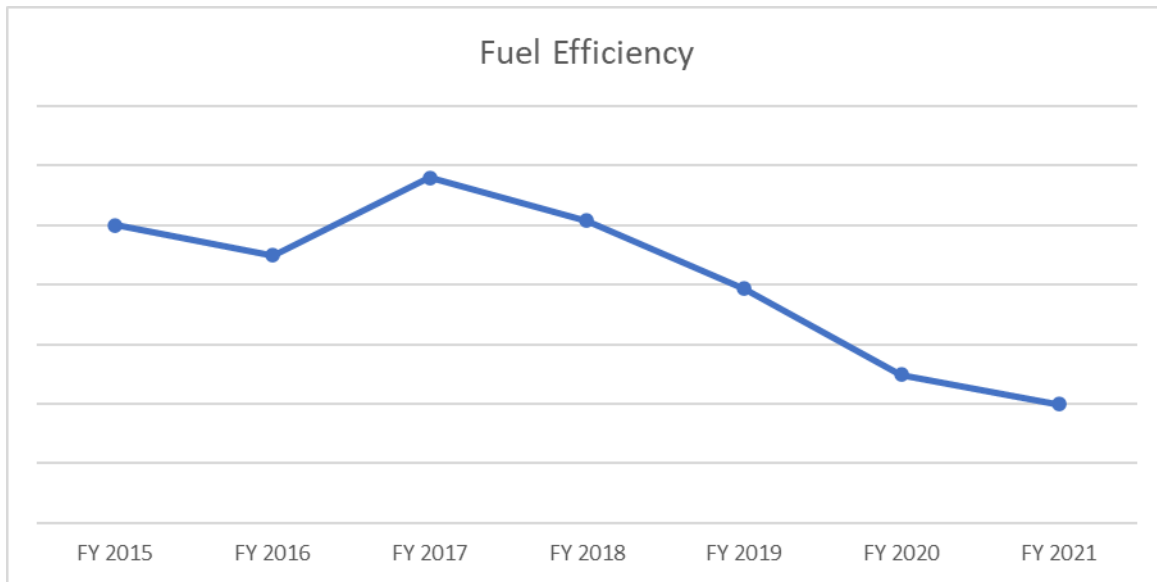
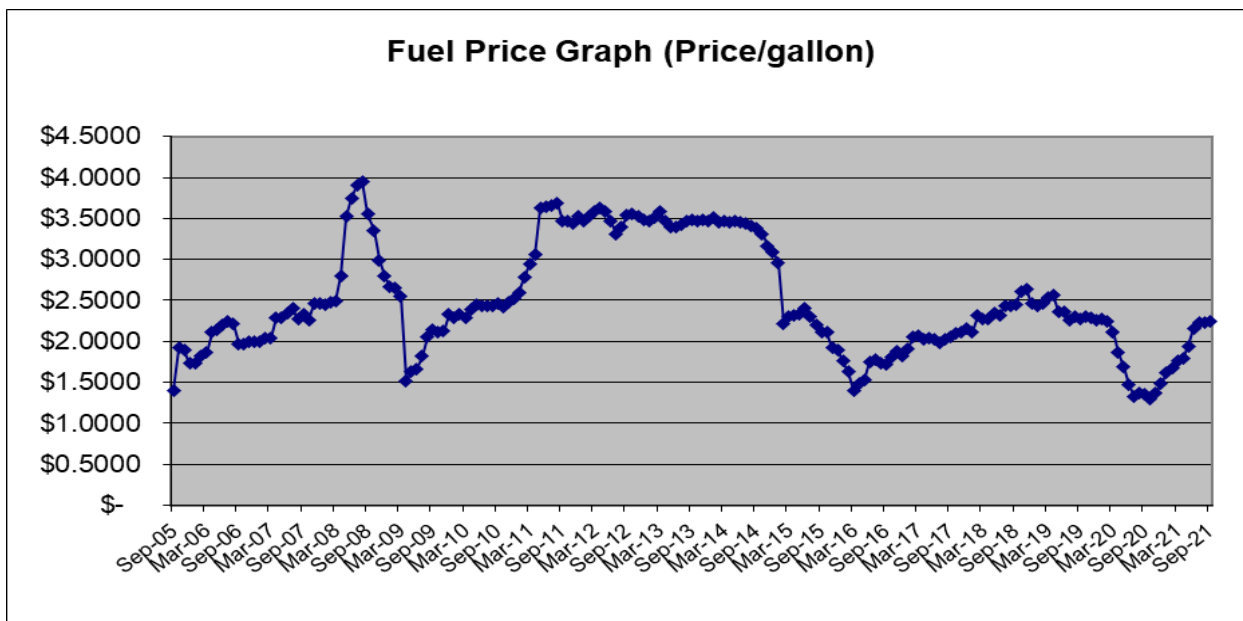


Chart 6: Fuel Price



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ELECTRIC POWER OPERATIONS, CONTINUED

The fuel efficiency begins to improve in FY 2016 and FY 2017 but begins to deflate in FY 2018 to FY 2021. The benchmark for all Pacific Island fuel efficiency is at 15.14 as per report by the Pacific Power Association (PPA). Fuel prices started to fall in FY 2016 and began to increase again until the early quarters of FY 2019. Prices declined in FY 2020 and gradually increased in FY 2021. Base on the world fuel market, fuel prices declined by almost 60% in the 2nd quarter of CY 2020 and still continue to drop up to December 2020. Prices began to increase again in January 2021 and continued to increase through September 2021. The rapid decline in the cost of fuel is due to the increasing cases of COVID-19 which led to closing of borders among countries, no flights and banned international travel. By September 2021, fuel prices increased by 64% compared to September 2020. This impacted the economy globally and has been a great challenge among nations especially in the fuel and tourism industry. This increase in the fuel prices by the 3rd quarter of CY 2021 is expected to increase AFPAC by almost 50% in FY 2022.

EPO Financial Highlights

Table 6: EPO Statements of Revenues, Expenses and Changes in Net Position

	(Dollars in Thousands)				
ELECTRIC POWER OPERATIONS	SEPT. 30, 2021	SEPT. 30, 2020	SEPT. 30, 2019	INC/(DEC) 2021	INC/(DEC) 2020
Revenues, Expenses, and Changes in Net Position					
Operating Revenues					
Electric	15,414	21,677	22,027	(6,263)	(350)
Others	1,012	680	934	332	(254)
Prov'n for Bad Debts	(83)	(72)	(267)	(11)	195
Non-Operating Revenue/(Expenses)	(386)	126	257	(512)	(131)
Total Revenue	15,957	22,411	22,951	(6,454)	(540)
Operating Expenses					
Generation Fuel	10,736	11,137	14,624	(401)	(3,487)
Generation Other Costs	1,895	3,552	3,484	(1,657)	68
Depreciation	2,903	2,970	3,080	(67)	(110)
Administration	1,927	1,902	1,800	25	102
Dist'n & Transmission	2,079	1,940	1,618	139	322
Engineering	906	704	625	202	79
Renewable Energy	223	202	199	21	3
Total Operating Expenses	20,669	22,407	25,430	(1,738)	(3,023)
Capital Contributions		24	173	(24)	(149)
Change in Net Position	(4,712)	28	(2,306)	(4,740)	2,334
Beginning Net Position	33,821	33,793	36,098	28	(2,305)
Ending Net Position	29,109	33,821	33,792	(4,712)	29

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EPO Financial Highlights, Continued

Operating revenue decreased by 28.79%. Factors that contributed to this decrease are: Very low AFPAC in January-June 2021 and decrease in kWh billed and generated. PPUC, in its effort to contribute support for the decline in the tourism industry and closing of most commercial establishments had suspended its disconnection and late fee charges in March 2020 but reinstated them in January 2021. Fuel consumption decreased by 1.27% while fuel prices increased as shown in Charts 4 and 6. Total expenses decreased due to austerity measures and pending procurements, installations and troubleshoots due to no flights and delays in shipments brought by pandemic. However, due to the drastic decline of fuel price in the world market in FY 2020 and earlier months of FY 2021, AFPAC was very low in January to June 2021. Fuel expenses decreased by 3.6% due to decreases in fuel consumption and kWh generated. Maintenance cost decreased by 58% because all major overhauls are deferred to FY 2022. Although there was a decrease in overall EPO expenses, the very low AFPAC in January to June 2021 resulted in a net operating loss of \$4.7 million. This is because the decrease in fuel cost in FY 2020 was returned to the customers through the AFPAC after six (6) months which is in FY 2021.

Table 7: EPO Statements of Net Position

	(Dollars in Thousands)				
ELECTRIC POWER OPERATIONS	SEPT. 30, 2021	SEPT. 30, 2020	SEPT. 30, 2019	INC/(DEC) 2020	INC/(DEC) 2019
Statement of Net Position					
Current Assets	28,010	24,324	21,284	3,686	3,040
Other Assets	146	111	113	35	(2)
Net Utility Plant	27,065	29,875	32,378	(2,810)	(2,503)
Total Assets	55,221	54,310	53,775	911	535
Deferred Outflows from Pension	5,706	5,608	4,261	98	1,347
	60,927	59,918	58,036	1,009	1,882
Current Liabilities	8,367	4,453	6,323	3,914	(1,870)
Other Liabilities	5,500	5,066	3,910	434	1,156
Net Pension Liability	16,252	14,355	11,912	1,897	2,443
Total Liabilities	30,119	23,874	22,145	6,245	1,729
Deferred Inflows from Pension	1,699	2,223	2,098	(524)	125
	31,818	26,097	24,243	5,721	1,854
Invested in Capital Assets	26,009	27,091	29,402	(1,082)	(2,311)
Unrestricted	3,100	6,730	4,391	(3,630)	2,339
Total Net Position	29,109	33,821	33,793	(4,712)	28

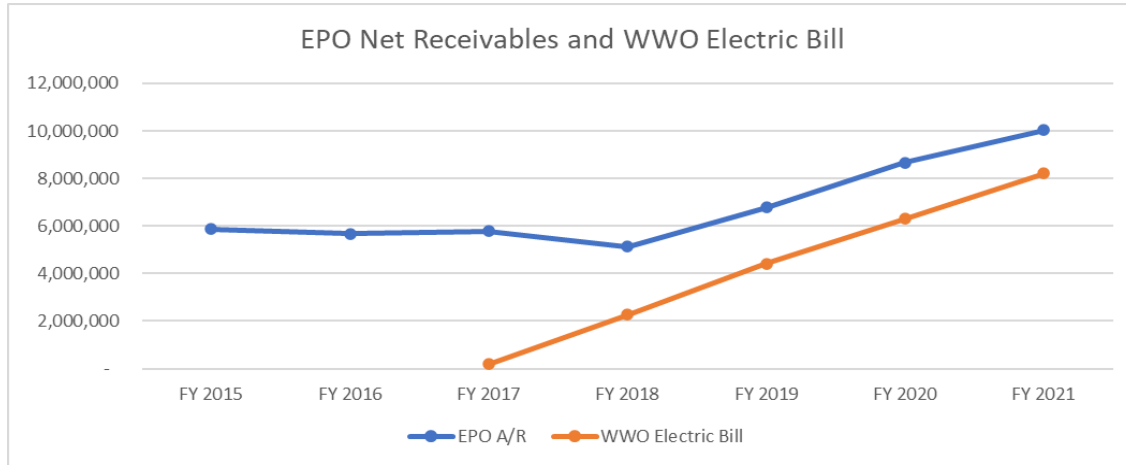
Cash decreased by 15% due to the very low AFPAC in January to June 2021. Accounts receivable increased by 15%. The \$8.2 million in accounts receivable is WWO's electric billings that is owed to EPO. Since September 2017, WWO has not been able to pay its electric bill, bloating the accounts receivable of the electric operations and impacting EPO's cash flow.

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EPO Financial Highlights, Continued

Chart 7: EPO Net Receivables and WWO Electric Bill



Accounts receivable of EPO increased by 15%; part of this is the electric bill of WWO that has been unpaid since September 2017.

WATER AND WASTEWATER OPERATIONS

RPPL 9-4 or the Utilities Consolidations Act merged the National Government Operations of water and wastewater with the National electric company, creating the new PPUC. The main water treatment plant is located in Ngeruluobel at Airai state. The Koror-Airai Water Treatment Plant (KAWTP) feeds the five (5) water storage tanks in Airai, Ngermid, Ngerkesoal, Ngerkebesang, and Malakal.

The table 8 below shows the water tanks and their area of coverage:

Water Storage Tanks	Capacity	Coverage
Airai	1M gallons	Whole state of Airai from Ordomei, Ngetkib to KB Bridge Airai side, Ochelochel
Ngermid	1M gallons	Ngesaol, Ngermid, Ngerias, Ngerbodel, Ngerchemai, and Iyebukel
Ngerkesoal	1M gallons	Ngerkesoal, Ikelau, Idid, Meketii, Dngeronger, Ngerbeched, M-Dock, Medalaii, including causeway store, Dr. Kuartei, WCTC Building, National Hospital, PNCC and all the houses nearby all the way to CIP Office, PC Club, Elilai Restaurant, and all buildings around Minatobashi bridge
Ngerkebesang	.5M gallons	Ngerkebesang, PPR, Echang, Echol all the way to Meyuns elementary school area
Malakal	.25M gallons	all Malakal area to Minatobashi Bridge

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WATER AND WASTEWATER OPERATIONS, CONTINUED

The prime objective of PPUC-Water and Wastewater Operations (WWO) as mandated by the law is that full cost recovery is achieved. Thus, a table of tariff rates was established to take effect April 2015. These rates were designed for PPUC in order to ensure achievement of full cost recovery and to fulfill the requirements of the ADB KASP loan agreement. However, with RPPL 10-19, 10-26, and 10-42 placing a prohibition on increasing the tariff of Water and Wastewater, this objective could not be achieved. In October 2020, the tariff prohibition was lifted and the last column of the April 2015 tariff table took effect in January 31, 2021.

Table 9 below shows the WWO tariff effective January 31, 2021:

KOROR-AIRAI Water & Sewer Rates

Residential Rates

Water Rates Tier 1	<5000/Gals	\$1.65/1000 gals
Water Rates Tier 2	>5001	\$6.75/1000 gals
Sewer Rates Tier 1	<5000/Gals	\$0.41/1000 gals
Sewer Rates Tier 2	>5001	\$6.18/1000 gals
Koror Water Fixed Charged/Month (WWR08)	\$22.50	\$0.75/Day
Koror Sewer Fixed Charged/Month (WWR20)	\$3.75	\$0.13/Day
Airai Fixed Charged/Month (WWR08A)	\$18.75	\$0.63/Day
Commercial/ROP/Govt.		
Water Rate	0 & Above	\$6.75/1000 gals
Sewer Rate	0 & Above	\$6.18/ 1000 gals
BABELDAOB & YOULDAOB		
Water Rates		
Residential Rates		
Water Rates Tier 1	<5000/Gals	\$1.06/1000 gals
Water Rates Tier 2	>5001	\$1.28/1000 gals
Sewer Rates	0 & Above	\$0.30/1000 gals
Babeldaob & Youлдаob W/fixed charged/month (WWR09)	\$7.50	\$0.25/Day
Babeldaob & Yoouldaob S/fixed charged/month (WWR21)	\$1.50	\$0.05/Day
Commercial/ROP/Govt.		
Water Rates	0 & Above	\$1.28/1000 gals
Sewer Rates	0 & Above	\$1.28/1000 gals

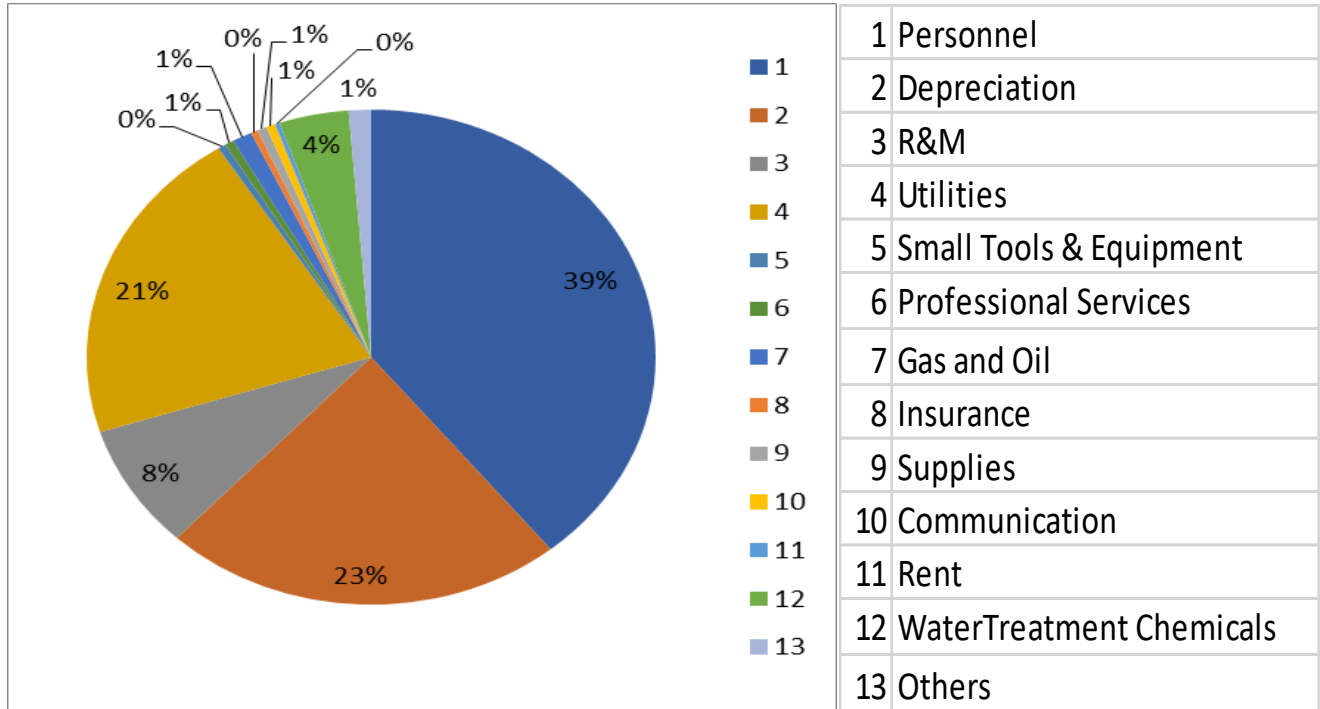
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WATER AND WASTEWATER OPERATIONS, CONTINUED

The table and chart below show the ratio of the operational expenses of WWO

Chart 8: Total Operating Expenses of WWO.



The chart shows that the largest percentage of expenses goes to personnel, depreciation and services. Services include utility expenses. WWO’s power consumption is approximately \$2 million per annum. As discussed in EPO’s financial highlights, WWO’s inability to pay its power bill has dramatically increased its accounts payable to \$8.2 million and thus affecting EPO’s cash requirement in covering its operating expenses.

Table 10: Gallons Billed and No. of Customers

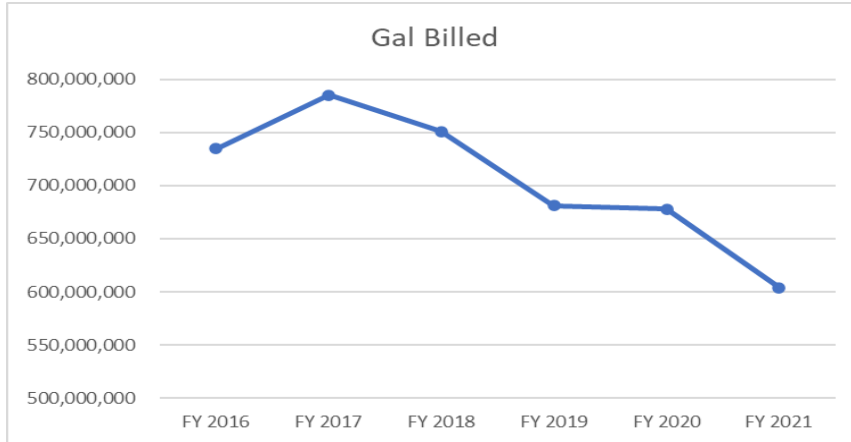
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Gal Billed	734,727,414	785,204,306	750,838,283	681,143,602	678,084,623	603,948,886
No. of Customer	4,598	4,671	4,765	4,848	5,045	5,119

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WATER AND WASTEWATER OPERATIONS, CONTINUED

Chart 9: Gallons Billed



Based on the JICA study made in 2018, Non-Revenue Water (NRW) was approximately 48%, which is presumably caused by water leakage. This water leakage wastes energy (electricity) for purification and transmission.

The JICA project constructed in FY 2018 aimed to reduce NRW to 37% by FY 2019. Based on the gallons billed, NRW decreased by 9% from FY 2018 to FY 2019 as WWO has been constantly monitoring water leakages. The JICA provided proper equipment and training for water leak detection. There are a total of 314 new connections made to the new line. Please take note that in FY 2015, the new WWO tariff was implemented and there was a significant decrease in the net losses from FY 2015 to FY 2017.

The Table 11 below shows the audited statements of revenues and expenses of WWO before capital contributions from FY 2013 to FY 2021.

Palau Public Utilities Corporation					
Water and Wastewater Operations					
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	(audited)	(audited)	(audited)	(audited)	(audited)
Operating Revenue	384,147.00	2,255,543.00	3,073,272.00	4,487,362.00	5,570,725.00
Operating Expenses	2,382,702.00	7,174,998.00	6,857,707.00	7,621,461.00	7,493,938.00
Net Income/(Loss)	(1,998,555.00)	(4,919,455.00)	(3,784,435.00)	(3,134,099.00)	(1,923,213.00)
Subsidies and Grants Received					
Operating Subsidies from ROP	2,672,734.00	1,700,000.00	3,419,045.00	2,266,993.00	
Donated Capital from the ROP		1,056,993.00	123,552.00	52,821.00	
Capital Contributions from ROP				1,327,648.00	
Other Grants				467,393.00	
Grants from Japan (JICA Project)					10,318,720.00

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WATER AND WASTEWATER OPERATIONS, CONTINUED

Palau Public Utilities Corporation				
Statement of Revenue and Expenses				
from FY 2013 to Present				
PROHIBITION				
WVO	FY 2018 (Audited)	FY 2019 (Audited)	FY 2020 (Audited)	FY 2021 (Audited)
Net Operating Revenues	\$ 5,402,622.00	\$ 5,107,150.00	\$ 4,614,306.00	\$ 4,225,623.00
Operating Expenses	\$ 9,006,505.00	\$ 9,236,667.00	\$ 9,287,587.00	\$ 9,230,076.00
Operating Income/Loss	\$ (3,603,883.00)	\$ (4,129,517.00)	\$ (4,673,281.00)	\$ (5,004,453.00)
			COVID-19 Pandemic	
Subsidies/Grants Received				
Operating Subsidies from ROP	1,695,000.00		1,600,000.00	
Donated Capital from the ROP			166,980.00	
Various Grants	18,900.00	18,900.00	18,900.00	209,900.00
Capital Contributions from ROP	19,939.00	672,112.00		
Grants from Japan	5,173,965.00			

Significant improvements are needed to upgrade the systems' capacity to address the domestic and commercial growth. This includes the Koror-Airai Sanitation Project (KASP) which led to a secured long-term soft-loan with the Asian Development Bank (ADB) of \$28 million. The two-year construction was expected to be finished and in full operation by FY 2022. The \$28 million was originally projected to cover both Koror and Airai. However, due to the change in prices of materials for construction and budget constraints, it only covered the Koror area.

Earlier in 2020, Asian Development Bank (ADB), through the Ministry of Finance, established a Policy Based Loan (PBL) of \$10 million for PPUC to be divided into two (2) tranches. The WVO part of Subprogram 1 amounting to \$1.3 million and all the Subprogram 2 will cover the water and wastewater operations and will improve WVO's treatment and distribution facilities. If quality of water is improving, PPUC can charge the Koror-Airai tariffs in parts of Babeldaob, Youldaob and Outlying States. The subprogram 2 of this ADB-PBL started in FY 2021. On August 18, 2021, the Board approved the following policy actions as required in the ADB-PBL Subprogram 2: Board Nomination Procedures; Sustainable Debt Management Procedures; Business Analytical Tool; Capacity Development Procedures and Statement of Corporate Intent. WVO Tariff Model, Tariff Petition and Revenue Enhancement Plan are expected to be approved in FY 2022. This will improve the revenue and operations of the WVO.

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WWO Financial Highlights

Table 12: WWO Statements of Revenues, Expenses and Changes in Net Position

	(Dollars in Thousands)				
WATER AND WASTEWATER OPERATIONS	SEPT. 30, 2021	SEPT. 30, 2020	SEPT. 30, 2019	INC/(DEC) 2021	INC/(DEC) 2020
Revenues, Expenses, and Changes in Net Position					
Operating Revenues					
Water and Wastewater	4,134	4,572	4,815	(438)	(243)
Others	229	122	348	107	(226)
Prov'n for Bad Debts	(137)	(80)	(56)	(57)	(24)
Non-Operating Revenue/(Expenses)	(559)	1,167	(2,107)	(1,726)	3,274
Total Revenue	3,667	5,781	3,000	(2,114)	2,781
Operating Expenses					
Water and Wastewater	5,813	5,792	5,686	21	106
Depreciation	2,108	2,239	2,305	(131)	(66)
Administration	1,309	1,256	1,245	53	11
Total Operating Expenses	9,230	9,287	9,236	(57)	51
Capital Contributions		167	672	(167)	(505)
Change in Net Position	(5,563)	(3,339)	(5,564)	(2,224)	2,225
Beginning Net Position	11,249	14,588	20,152	(3,339)	(5,564)
Ending Net Position	5,686	11,249	14,588	(5,563)	(3,339)

In 2021, operating revenue decreased by 8% and gallons billed decreased by 10%. Factors that contributed to this decrease is closing of most commercial establishments due to the pandemic. All of these occurred in the 3rd quarter of FY 2020 and continued up to FY 2021. PPUC, in its effort to contribute support for the decline in the tourism industry and closing of most commercial establishments, suspended its disconnection and late fee charges in 2020 but reinstated them in January 2021.

Table 13: WWO Statements of Net Position

	(Dollars in Thousands)				
WATER AND WASTEWATER OPERATIONS	SEPT. 30, 2021	SEPT. 30, 2020	SEPT. 30, 2019	INC/(DEC) 2021	INC/(DEC) 2020
Statement of Net Position					
Current Assets	4,604	4,938	4,310	(334)	628
Other Assets	124	124	168	-	(44)
Net Utility Plant	43,050	43,321	43,593	(271)	(272)
Total Assets	47,778	48,383	48,071	(605)	312
Deferred Outflows from Pension	3,904	4,004	2,496	(100)	1,508
	51,682	52,387	50,567	(705)	1,820
Current Liabilities	10,909	9,188	8,510	1,721	678
Other Liabilities	22,480	20,117	17,947	2,363	2,170
Net Pension Liability	11,445	10,421	8,065	1,024	2,356
Total Liabilities	44,834	39,726	34,522	5,108	5,204
Deferred Inflows from Pension	1,163	1,412	1,456	(249)	(44)
	45,997	41,138	35,978	4,859	5,160
Invested in Capital Assets	19,232	22,051	24,714	(2,819)	(2,663)
Unrestricted	(13,547)	(10,802)	(10,125)	(2,745)	(677)
Total Net Position	5,685	11,249	14,589	(5,564)	(3,340)

As of September 30, 2021, cash decreased by 14% due to decreases in gallons billed. Accounts receivable decreased by 20% due to the decrease in gallons billed and the lifting of suspension on late fees. Also, current liabilities increased by 6.39% due to additional current portion of KASP Loan and unpaid electric bill of WWO amounting to \$8.2 million. WWO has not been able to pay its electric bill due to cash flow constraints of not generating enough cash revenue from its tariff. Non-Current/Other liabilities increased by 12% due to the progress of KASP where a liability is recorded upon disbursement of the costs of the project.

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WWO Financial Highlights, Continued

Chart 10. WWO Net Receivables

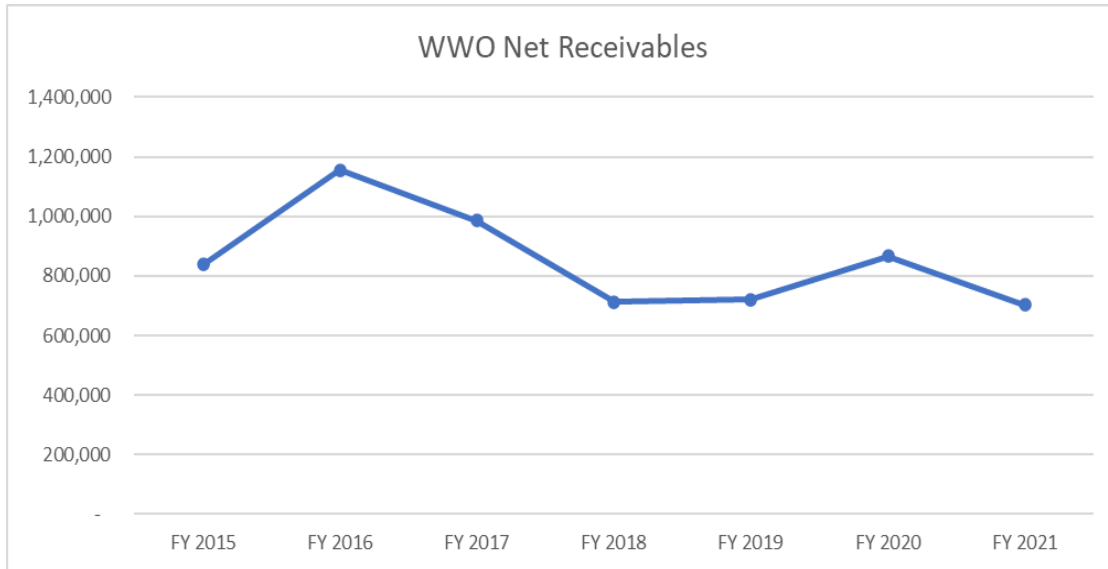
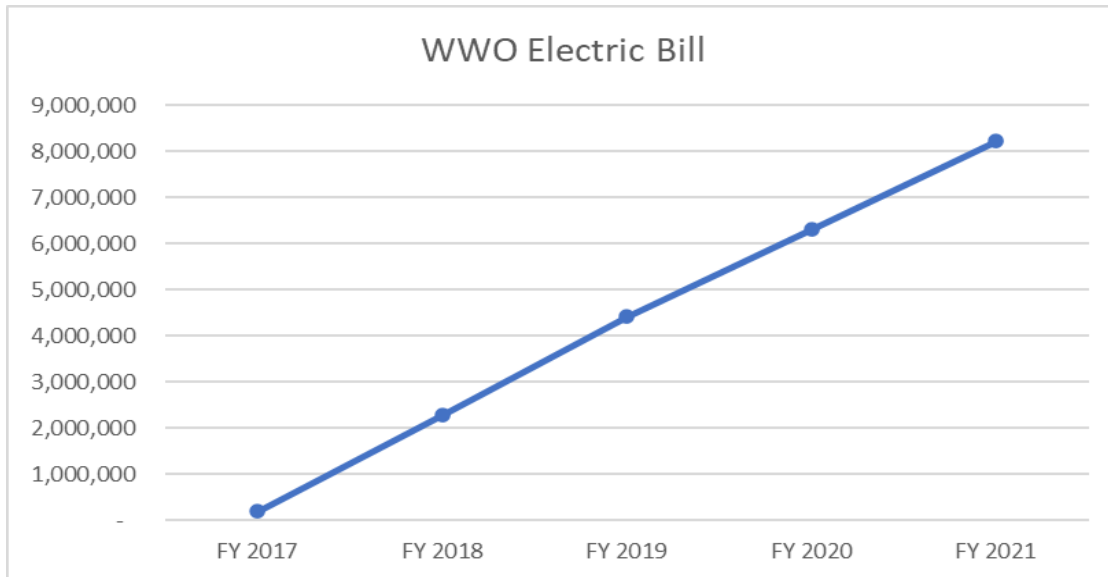


Chart 11: WWO Payables (Electric Bills)



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CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The following table summarizes PPUC's capital assets by category and accumulated depreciation, and the change therein for the years ended September 30, 2019 through 2021. The total investment in capital assets amounted to \$70 million (net of accumulated depreciation). The overall corporate capital assets decreased by \$3.082 million.

Table 14: PPUC's Capital Assets

	Sept 30,	Sept 30,	Sept 30,	Increase (Decrease)	Increase (Decrease)
	2021	2020	2019	2021	2020
CAPITAL ASSETS:					
Electric Plants:					
Electric Plants, Koror/Aimeliik	33,202	40,679	40,630	(7,477)	49
Electric Plants, Outlying States	2,302	2,287	2,238	15	49
Total Electric Plants	35,504	42,966	42,868	(7,462)	98
Accumulated Depreciation	(18,518)	(23,950)	(22,133)	5,432	(1,817)
Net Electric Plant	16,986	19,016	20,735	(2,030)	(1,719)
Transmission & Distribution System					
T&D System, Koror/Aimeliik	19,191	18,819	18,913	372	(94)
T&D System, Outlying States	2,149	2,208	2,120	(59)	88
Total T&D System	21,340	21,027	21,033	313	(6)
Accumulated Depreciation	(14,716)	(14,112)	(13,575)	(604)	(537)
Net T&D System	6,624	6,915	7,458	(291)	(543)
Water & Sewer Systems					
Water Infrastructure	40,269	40,105	40,096	164	9
Sewer Infrastructure	20,706	20,705	20,706	1	(1)
Total Water & Sewer Systems	60,975	60,810	60,802	165	8
Accumulated Depreciation	(42,899)	(40,965)	(38,919)	(1,934)	(2,046)
Net Water & Sewer Systems	18,076	19,845	21,883	(1,769)	(2,038)
Water & Sewer Transmission & Distribution System					
WWO T&D System, Koror/Babeldaob	1,381	1,381	1,381	-	-
Total WWO T&D System	1,381	1,381	1,381	-	-
Accumulated Depreciation	(369)	(294)	(220)	(75)	(74)
Net WWO T&D System	1,012	1,087	1,161	(75)	(74)
Administrative Equipment					
Buildings	3,169	3,169	3,169	-	-
Heavy Equipment & Vehicles	3,406	3,259	3,249	147	10
Tools & Maint Equipment	572	550	584	22	(34)
Computers & Office Equipment	1,457	1,424	1,436	33	(12)
Total Admin Equipment	8,604	8,402	8,438	202	(36)
Accumulated Depreciation	(5,761)	(5,198)	(4,736)	(563)	(462)
Net Admin Equipment	2,843	3,204	3,702	(361)	(498)
Total Capital Projects in Progress	24,574	23,130	21,032	1,444	2,098
TOTAL	\$ 70,115	\$ 73,197	\$ 75,971	(3,082)	(2,774)

Refer to note 7 to the financial statements for additional information about PPUC's capital assets.

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CAPITAL ASSETS AND LONG-TERM DEBT, CONTINUED

Long-Term Debt

The international and local loans were acquired to purchase additional generation capacity and to finance major repairs and generation auxiliary equipment. The long-term soft loan secured by the ROP from Asian Development Bank was subsequently loaned to PPUC as per subsidiary loan agreements dated March 28, 2014. Proceeds are used to upgrade the Koror sewerage system and construct a wastewater treatment plant. The ADB loan amount as of September 30, 2021 reflects the total amount of the loan proceeds withdrawn and is recognized as long-term debt in the financial statements. The additional loan of \$5 million is a Policy-Based Loan (PBL) secured by ROP for PPUC from the Asian Development Bank. This PBL requires reforms and tariff study and expected to augment PPUC's operations both in EPO and WWO.

The table 15 below shows the outstanding loans of PPUC:

Outstanding Loans		(Dollars in thousands)	
	Original	Sept 30, 2021	
EPO International Loan (MEGA)	\$ 7,000	\$ 2,200	
EPO Local Loan (NDBP)	\$ 3,000	\$ -	
WWO International Loan (ADB 3060 & 3061)	\$ 28,672	\$ 22,518	
Returnable Subsidy (RPPL 10-53 / 11-14)	\$ 1,800	\$ 900	
EPO ADB PBL Loan	\$ 3,700	\$ 3,700	
WWO ADB PBL Loan	\$ 1,300	\$ 1,300	
TOTAL	\$ 45,472	\$ 30,618	

Notes:

PPUC Power received a \$1.8 million subsidy from the national government (ROP) on April 9, 2020 for operations and improvements. Per RPPL 10-53, the subsidy shall be reimbursed once concessionary financing for operations and capital investment requirements is secured. In Sep-21, \$900K was withheld from the 1st Tranche of the ADB PBL Loan to cover a portion of the 10-53 subsidy.

The original amount for the KASP Loan was \$28,800,000.00 USD
LN3060 = \$26,900,000.00 USD
LN3061 = \$1,258,000.00 SDR (equivalent to \$1,900,000.00 USD)

As of Sep-21, \$1,258,000.00 is equivalent to about \$1,772,360 USD

Refer to Note 8 of the financial statements for additional information about PPUC's financing activities.

Contracts amounting to \$26.6 million have been awarded as shown in the table 16 below:

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CAPITAL ASSETS AND LONG-TERM DEBT, CONTINUED

Long-Term Debt, Continued

ADB Loan Contractors	KASP Project Components	Contract Amount ('000)
Progetti Plant, SRL	ICB-01 - Sewer Network Rehabilitation & Expansion at Malakal & Meyuns	\$ 4,174
Pacific Engineering Projects, Ltd.	ICB-02 - Koror Sewer Network Rehabilitation & Expansion Works	\$ 5,012
Pacific Engineering Projects, Ltd.	ICB-03 - Malakal Sewer Treatment Plant Upgrade	\$ 11,421
Egis Eau	Project Implementation Assistance Consultants (PIAC)	\$ 5,213
US Jetting, LLC	High Pressure Jetter for Sewage System	\$ 62
Surangel & Sons Construction	NCB-02 - Asphalt Road Reinstatement & Related Structures in Malakal	\$ 301
Naveen Kumar Rejeti	Consulting Services	\$ 36
Williams Construction Company	Ernguul Park Public Restroom	\$ 94
VMJ Construction Company	NCB-03 - Construction of Washout Chambers on New SPS-1 Force Main	\$ 209
Saint Gobain PAM	Supply of Manhole Covers	\$ 17
Palau National Quarry	Long Island Park Public Restroom	\$ 145
Grant S. Murdie	Consulting Services	\$ 10
		\$ 26,694

CASH POSITION

PPUC financial statements are prepared on an “accrual” basis, which recognizes revenue and expenditures when they occur, and not when cash is received or paid. In addition, accrual accounting recognizes certain non-cash items, such as depreciation and provision for future payments, which have no immediate cash impact. Reporting on an “accrual” basis is considered more accurate in presenting the “true” financial performance and result for a business, than reporting on a cash basis.

It must be understood that a business may record an operating cash surplus in a particular year, without necessarily making an operating profit for that year, or may record a cash deficit from operations without actually incurring an operating loss on an accrual basis for that year.

Accordingly, an operating cash surplus or deficit for a year does not necessarily indicate anything about the true operating performance of the business for the year, and should not be relied upon in making business decisions. For example, a business may produce a cash surplus by delaying payments to suppliers, or receiving payments from customers in advance. However, these actions do not improve the actual financial performance of the business, and are hence adjusted out from accrual financial statements.

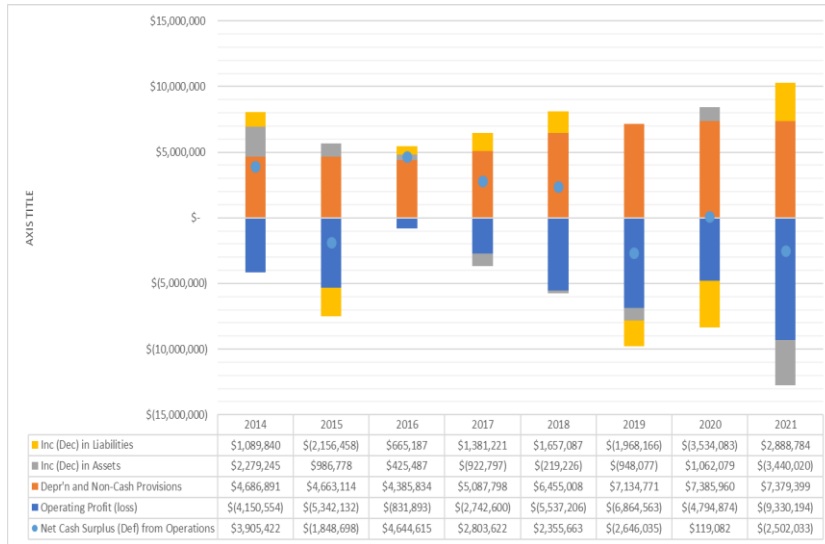
The chart below shows the net operating cash surplus or deficit for the Corporation from FY 2016 through FY 2021. This cash result arises from a variety of factors. The chart attempts to show the impact of those factors. In most years, the Corporation has recorded a cash surplus. That cash surplus has mainly arisen from provisions made for depreciation, which is an expense that recognizes the cost associated with the reduction in the value of assets used in operations, which is not a cash expense. Another contributing factor has been in the operating liabilities (an increase/decrease in what the Corporation owes to outsiders), it has been increasing in the past years but decreased in FY 2019 and increased again by FY 2020 due to the decrease in fuel costs brought by the pandemic. The major factor negatively impacting the cash result has been the operating loss recorded in each of the years especially in FY 2018 to FY 2020 where PPUC was prohibited to increase its tariff. Only a minor impact on cash has occurred from the change in operating assets in each of the years.

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CASH POSITION, CONTINUED

The table 16 below shows the net operating cash surplus



Pandemic and Natural Disasters

In the early months of CY 2020, the world was shocked of the emergence and widespread impact of the global pandemic called COVID-19 caused by severe acute respiratory syndrome coronavirus 2. It became an international concern because of its fast transmission that may cause life-threatening illness. This pandemic is not just a threat to health and life but also to the global economy. Governments struggled with new lockdown measures to tackle the spread of the virus. Closing of portals and canceling of flights has been one of the major steps the national government undertook, and that is true with the Republic of Palau, having been known as Covid-free. However, the tourism industry was affected. Several commercial establishments stopped or cut operations to reduced costs and this includes utility consumption. In PPUC's effort to contribute to the global concern of pandemic, it suspended the disconnection and charging of late fees in FY 2020. However, this had caused delays in payment of bills and increasing defaults despite the collection efforts, thus the suspension was lifted in January 2021. Due to no flights and slow shipments, most of the procurements were delayed. These procurements include installations of some major assets and major overhauls that are essential to the operations of PPUC. Managers and staff doubled their efforts to minimize the effects of the delays, especially the major overhaul of the Niigata 14 and 15 generators in Malakal power plant and the Mitsubishi generator in Aimeliik power plant. These are the four (4) major generators that supply most of the power to the whole island. One of the major impacts of this pandemic is the drastic decrease of fuel prices in FY 2020. It may have reduced the net loss, but was not really considered a gain since this was returned to the customers by FY 2021 through the AFPAC. This resulted in the very low fuel rate in periods of January to June 2021.

The pandemic threat has not stopped PPUC from improving its operations. PPUC found new opportunities and turned the negativity of this pandemic into a more positive way of doing things. PPUC developed the e-billing and strengthened its public relations to encourage people to send their email ads and to receive and pay their bills on-line. PPUC also switched to e-payroll, where employees received their pay slips through email rather than a voucher. PPUC also upgraded their information technology systems and prepared everybody to do the home-based work when the need arose. Meetings and communications were done virtually and COVID-19 preparedness has been thoroughly discussed and practiced.

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CASH POSITION, CONTINUED

Pandemic and Natural Disasters, Continued

In April 2021 Typhoon Surigae hit Palau. Damages occurred to some affected facilities in Electric, Water and Wastewater Operations. Major damage in the electric power operations were transformers, compressors, circuit breakers, and distribution lines which costs EPO \$458k. Due to the island wide power outage for many days, water pumps were not able to pump water to distribution tanks which affected the residents' water consumption. Lack of funding for water and wastewater operations did not give them the opportunity to purchase necessary equipment to improve the operations. Almost 80% of the outlying states water system is not equipped with a backup power supply that can be used during longer periods of power outage. There were many reports from the outlying states for broken pipes and damaged water lines during the typhoon. These very old facilities of the water and wastewater operations need to be changed and refurbished to bring the best quality of services to the public. The total cost of damages for the WWO is \$200k.

FUTURE OUTLOOK

Palau is a pristine paradise consisting of approximately 340 islands that lie in the western Pacific Ocean. It is known for its rich beaches, beautiful scenery and clean environment. However, like most island paradises, it is sensitive to the global forces of climate change. In prior years, Palau's economy was primarily based on fishing and agriculture. However, commercial development emerged due to the coming of tourists to visit the island. PPUC, being the sole provider of utilities was successful in providing the whole Republic with electric, water and wastewater services.

The poor standard of water and wastewater infrastructure inherited by the Corporation upon the merger with the former Palau Water and Sewer Corporation brought with it considerable risks of environmental impact, both from potential water losses that might result in excessive extraction of water reserves, and from potential wastewater spills that might harm land, marine or mangrove environments. The Corporation has been addressing these risks in partnership with the Asian Development Bank; the Government of Japan and the Government of Palau, to undertake major upgrades of water and wastewater systems, while rectifying localized maintenance problems on a day-to-day operational basis.

Both electrical and water/wastewater services require continued investment to maintain infrastructure at safe operational standards. These investments can only come from tariff rates applied to customers for use of the services. RPPL 9-04 requires the Corporation to apply tariff rates for electrical and water and wastewater services that ensure "adequate" charges are imposed for its services including fuel recovery and operating and maintenance costs. The Corporation interprets the meaning of "adequate" to be the charges that should be sufficient to meet the fuel costs and other operating and capital costs of providing the services.

In June 2021, PPUC's base rate in EPO increased to reach full cost recovery. This tariff study allowed PPUC to change the base rate annually depending on the projected operating and capital expenditures of the Corporation. This major improvement to the electric power operations will allow them to operate effectively and efficiently and deliver the best quality of services to the people. The water and wastewater operations' tariff study will be done in FY 2022.

The Corporation exists as a commercial entity. It has an obligation to recover its costs through the imposition of adequate tariff rates. In respect to water and wastewater charges, the Corporation has been increasing tariffs in a staged manner in order to fully meet costs over a five-year period. In respect to electricity services, the Corporation is required to adjust tariffs quarterly to meet changing fuel costs, which have been evidenced in chart 6 (changes in fuel prices) to have been increasing since 2016. Restricting the capacity of the Corporation to adjust tariffs for the purposes of applying "adequate" charges could affect its operating performance and financial stability. The tariff study being done for both EPO and WWO in relation to the ADB-PBL is expected to resolve this issue of cost-recovery and sustainability of the Corporation.

**PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)**

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

CONTACTING PPUC'S FINANCIAL MANAGEMENT

This financial report is designed to provide PPUC's rate payers, creditors, funding sources, and other interested parties with a general overview of PPUC's finances, operations and to demonstrate PPUC's accountability for the money it receives. Management Discussion and Analysis for the year ended September 30, 2020 is set forth in PPUC's report on the audit of financial statements which is dated October 26, 2021.

If you have questions about this report, or need additional information, contact the PPUC Accounting Department at the Palau Public Utilities Corporation, P.O. Box 1372, Koror, Republic of Palau 96940, or e-mail m.olivares@ppuc.com or call 488-5320.

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Statements of Net Position
September 30, 2021 and 2020

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2021</u>	<u>2020</u>
Utility plant:		
Depreciable utility plant, net	\$ 45,540,730	\$ 50,066,999
Non-depreciable utility plant	<u>24,574,390</u>	<u>23,129,791</u>
Net utility plant	<u>70,115,120</u>	<u>73,196,790</u>
Current assets:		
Cash and cash equivalents	9,972,068	11,716,991
Receivables:		
Trade	4,208,132	4,474,785
Affiliate	461,660	731,132
Current portion of contracts	141,968	87,071
Other	<u>30,147</u>	<u>44,474</u>
	4,841,907	5,337,462
Less allowance for doubtful accounts	<u>(2,330,774)</u>	<u>(2,111,223)</u>
Net receivables	<u>2,511,133</u>	<u>3,226,239</u>
Prepaid expenses	988,611	417,239
Inventory, net	<u>10,930,358</u>	<u>7,601,129</u>
Total current assets	<u>24,402,170</u>	<u>22,961,598</u>
Other non-current assets:		
Contracts receivable, net of current portion	<u>269,785</u>	<u>234,810</u>
Total assets	<u>94,787,075</u>	<u>96,393,198</u>
Deferred outflows of resources from pension	<u>9,610,741</u>	<u>9,612,349</u>
	<u>\$ 104,397,816</u>	<u>\$ 106,005,547</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u> 		
Net position:		
Net investment in utility plant	\$ 45,241,362	\$ 49,142,790
Unrestricted	<u>(10,446,790)</u>	<u>(4,072,510)</u>
Total net position	<u>34,794,572</u>	<u>45,070,280</u>
Current liabilities:		
Current portion of long-term debt	1,737,941	1,797,161
Accounts payable	5,742,415	2,848,594
Accrued expenses	1,096,976	1,057,016
Due to Republic of Palau	900,000	-
Advances from the Republic of Palau	421,760	482,402
Customer deposits	<u>1,165,563</u>	<u>1,155,311</u>
Total current liabilities	11,064,655	7,340,484
Long-term debt, net of current portion	27,979,817	23,383,048
Due to Republic of Palau	-	1,800,000
Net pension liability	<u>27,696,488</u>	<u>24,776,269</u>
Total liabilities	<u>66,740,960</u>	<u>57,299,801</u>
Deferred inflows of resources from pension	<u>2,862,284</u>	<u>3,635,466</u>
	<u>\$ 104,397,816</u>	<u>\$ 106,005,547</u>

See accompanying notes to financial statements.

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2021 and 2020

	2021	2020
Operating revenues:		
Power	\$ 13,488,617	\$ 19,763,518
Water	2,642,479	2,831,051
Wastewater	1,431,031	1,673,810
Other	1,240,655	801,972
Total operating revenues	18,802,782	25,070,351
Provision for uncollectible receivables	(219,550)	(151,900)
Net operating revenues	18,583,232	24,918,451
Operating expenses:		
Generation - fuel	10,735,669	11,137,098
Depreciation	5,011,204	5,208,657
Generation - other cost	1,886,544	3,547,080
Administration	3,197,958	3,113,940
Distribution and transmission	2,059,501	1,915,350
Engineering services	901,060	698,321
Renewable energy	218,275	195,477
Water operations	3,057,257	2,848,879
Wastewater operations	845,958	1,048,523
Total operating expenses	27,913,426	29,713,325
Operating loss	(9,330,194)	(4,794,874)
Nonoperating revenues (expenses):		
Operating subsidies from the Republic of Palau	20,802	2,100,000
Grants	233,825	45,000
Interest income	815	1,752
(Loss) gain on disposal of utility plant	(337,105)	16,938
Interest expense	(279,077)	(617,164)
Others	(584,774)	(253,585)
Total nonoperating (expenses) revenues , net	(945,514)	1,292,941
Loss before capital contributions	(10,275,708)	(3,501,933)
Capital contributions:		
Capital contributions from the Republic of Palau	-	190,942
Change in net position	(10,275,708)	(3,310,991)
Net position at beginning of year	45,070,280	48,381,271
Net position at end of year	\$ 34,794,572	\$ 45,070,280

See accompanying notes to financial statements.

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	\$ 17,301,314	\$ 22,706,638
Cash payments to suppliers for goods and services	(13,785,922)	(16,161,714)
Cash payments to employees for services	(6,017,423)	(6,425,842)
Net cash (used in) provided by operating activities	(2,502,031)	119,082
Cash flows from investing activities:		
Interest income	813	1,752
Cash flows from non-capital financing activities:		
Appropriations received from the Republic of Palau	20,802	2,100,000
Cash received from grantor agencies	233,825	45,000
Other non-capital activities	(584,774)	(253,585)
Net cash (used in) provided by non-capital financing activities	(330,147)	1,891,415
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	6,247,897	3,036,848
Principal payments on long-term debt	(1,710,348)	(1,271,809)
Interest paid on long-term debt	(284,468)	(348,210)
Appropriations received from the Republic of Palau	-	166,981
(Repayments of) proceeds from reimbursable grant from the Republic of Palau	(900,000)	1,800,000
Repayment of advances from the Republic of Palau	-	(30,000)
Acquisition of utility plant	(2,266,639)	(2,417,649)
Net cash provided by capital and related financing activities	1,086,442	936,161
Net change in cash and cash equivalents	(1,744,923)	2,948,410
Cash and cash equivalents at beginning of year	11,716,991	8,768,581
Cash and cash equivalents at end of year	\$ 9,972,068	\$ 11,716,991
Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	\$ (9,330,194)	\$ (4,794,874)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation	5,011,204	5,208,657
Provision for uncollectible receivables	219,550	151,900
Pension expense	2,148,645	2,025,403
(Increase) decrease in assets:		
Receivables:		
Trade	266,654	(327,970)
Affiliate	269,472	23,582
Contracts	(89,872)	59,266
Other	14,327	(10,270)
Prepaid expenses	(571,372)	(106,785)
Inventory	(3,329,229)	1,424,256
Increase (decrease) in liabilities:		
Accounts payable	2,893,821	(2,950,841)
Accrued expenses	45,353	(363,067)
Grant advances from the Republic of Palau	(60,642)	(205,179)
Customer deposits	10,252	(14,996)
Net cash (used in) provided by operating activities	\$ (2,502,031)	\$ 119,082

See accompanying notes to financial statements.

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Notes to Financial Statements
September 30, 2021 and 2020

(1) Organization

The Public Utilities Corporation (PUC), a component unit of the Republic of Palau (ROP), was created on July 6, 1994, under the provisions of Republic of Palau Public Law (RPPL) 4-13. The law created a wholly-owned government corporation governed by a Board of Directors appointed by the President of the ROP, with the advice and consent of the Senate of the Olbiil Era Kelulau (ROP National Congress). The primary purpose of PUC was to establish and operate electrical utility services within the ROP.

On June 6, 2013, RPPL 9-4 was signed into law for the purpose of merging the Palau Water & Sewer Corporation and PUC operations as Palau Public Utilities Corporation (PPUC). The electric power operations (EPO) and water and wastewater operations (WWO) are to be treated as separate business segments having their own organizational chart delineating their chains of management. Further, shared administrative costs and expertise are to be allocated between EPO and WWO and shall not be utilized to subsidize each other.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accounting policies of PPUC conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds. PPUC utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and time certificates of deposit with original maturities of three months or less and includes an unrestricted sinking fund associated with the loan with a development bank (note 8) with a balance of \$3.9 million at September 30, 2020.

Receivables

PPUC grants credit, on an unsecured basis, to individuals, businesses and governmental entities situated in the ROP. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluation of the collectability of these accounts and prior collection experience. The allowance is established through a provision for uncollectible receivables charged to expense.

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Inventory

Inventories of fuel and supplies are stated at the lower of cost (first-in, first-out) or market (net realizable value).

Utility Plant

Utility plant purchased or constructed is stated at cost. Donated utility plant is recorded at fair market value at the date of donation or at the donating entity's basis in the asset if donated by the ROP or an ROP agency. PPUC capitalizes utility plant with a cost of \$5,000 or more.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

No interest was capitalized on construction in progress during the years ended September 30, 2021 and 2020 due to early adoption of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

Net Position

Net position represents the residual interest in PPUC's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of four sections:

Net investment in utility plant – includes utility plant, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve.

Restricted expendable – net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of PPUC pursuant to those stipulations or that expire with the passage of time.

Restricted nonexpendable – net position subject to externally imposed stipulations that require PPUC to maintain them permanently.

Unrestricted – net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Revenue

Sales of electricity, water and wastewater services are recorded as billed to customers on a monthly cycle billing basis. For electricity billings, PPUC factors a variable fuel surcharge into its monthly billings to recover the costs of fuel. Increases in the variable fuel charge have been limited due to passage of RPPL 10-42 in September 2019. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Unbilled revenues at September 30, 2021 and 2020 were \$979,689 and \$924,084, respectively.

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses include all direct and administrative revenues and expenses associated with the generation and distribution of electricity and water and the provision of wastewater services to customers in the ROP.

Nonoperating revenues and expenses result from investing and financing activities, including operating and capital grants from other governmental entities.

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. PPUC recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents PPUC's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a cost-sharing multi-employer pension plan, measured one year prior to fiscal year-end and rolled forward. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense over 5 years beginning with the period in which the difference occurred.

Deferred Outflows of Resources

Deferred outflows of resources represent consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

Compensated Absences

Accumulated unpaid annual leave is accrued when earned and is included in the statements of net position as an accrued expense. Accumulated unused sick pay benefit is accrued at 25% of the sick leave hours recorded times the employees' regular base rate, and is included in the statements of net position as an accrued expense.

Taxes

Based on enactment of RPPL 4-13 and RPPL 9-4, PPUC is exempt from all national and state non-payroll taxes or fees.

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements, except for Statement No. 89 which was implemented October 1, 2018.

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

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

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

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

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

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

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

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

(3) Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, PPUC'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. PPUC does not have a deposit policy for custodial credit risk.

As of September 30, 2021 and 2020, cash and cash equivalents were \$9,972,068 and \$11,716,991, respectively, and the corresponding bank balances were \$10,538,575 and \$12,196,943, respectively, that are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021 and 2020, bank deposits of \$750,000 were FDIC insured. PPUC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage and deposits in financial institutions not subject to FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

(4) Grants

PPUC is a subrecipient of federal grants received by the ROP from a U.S. federal agency. PPUC received grants of \$17,325 and \$18,900 for the year ended September 30, 2021 and \$45,000 for the year ended September 30, 2020, from the U.S. Federal Government. PPUC also received grants of \$192,575 for the year-ended September 30, 2021 from the Italian Government.

In addition, PPUC received subsidies and capital contributions from ROP (note 10).

(5) Receivable from a Local Bank

At September 30, 2021 and 2020, PPUC has uninsured deposits of \$1,896,036, with a bank that went into receivership on November 7, 2006. These deposits were fully provided with an allowance at September 30, 2021 and 2020.

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Notes to Financial Statements
September 30, 2021 and 2020

(6) Inventory

Inventory at September 30, 2021 and 2020, consists of the following:

	<u>2021</u>	<u>2020</u>
Generation parts and supplies	\$ 7,145,339	\$ 6,329,697
Fuel	3,017,600	624,367
Lubricants	38,595	70,072
Chemicals	450,155	370,809
Water distribution parts and supplies	<u>813,501</u>	<u>741,016</u>
	11,465,190	8,135,961
Allowance for slow moving and obsolete inventory	<u>(534,832)</u>	<u>(534,832)</u>
	<u>\$ 10,930,358</u>	<u>\$ 7,601,129</u>

Included in the allowance for slow moving and obsolete inventory was \$497,841 at September 30, 2021 and 2020 provided for generation parts and supplies inventory maintained in the Aimeliik power plant that caught fire in November 2011.

(7) Utility Plant

Utility plant consists of the following detailed balances at September 30, 2021 and 2020:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2020</u>	<u>Additions and Transfers</u>	<u>Deletions and Transfers</u>	<u>Balance at September 30, 2021</u>
Depreciable utility plant:					
Electric plant	3 - 25 years	\$ 43,422,650	\$ 84,800	\$ (7,545,334)	\$ 35,962,116
Water system	20 years	41,563,267	164,184	-	41,727,451
Sewer system	20 years	20,705,905	-	-	20,705,905
General support equipment	2 - 30 years	28,204,956	544,552	(62,769)	28,686,739
Administrative equipment	2 - 10 years	<u>705,595</u>	<u>30,879</u>	-	<u>736,474</u>
		134,602,373	824,415	(7,608,103)	127,818,685
Less accumulated depreciation		<u>(84,535,374)</u>	<u>(5,011,204)</u>	<u>7,268,623</u>	<u>(82,277,955)</u>
		50,066,999	(4,186,789)	(339,480)	45,540,730
Non-depreciable utility plant:					
Construction in progress		<u>23,129,791</u>	<u>1,868,962</u>	<u>(424,363)</u>	<u>24,574,390</u>
		<u>\$ 73,196,790</u>	<u>\$ 2,317,827</u>	<u>\$ 763,843</u>	<u>\$ 70,115,120</u>
	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2019</u>	<u>Additions and Transfers</u>	<u>Deletions and Transfers</u>	<u>Balance at September 30, 2020</u>
Depreciable utility plant:					
Electric plant	3 - 25 years	\$ 43,326,063	\$ 96,587	\$ -	\$ 43,422,650
Water system	20 years	41,554,827	8,440	-	41,563,267
Sewer system	20 years	20,705,905	-	-	20,705,905
General support equipment	2 - 30 years	28,243,385	231,494	(269,923)	28,204,956
Administrative equipment	2 - 10 years	<u>712,015</u>	-	(6,420)	<u>705,595</u>
		134,542,195	336,521	(276,343)	134,602,373
Less accumulated depreciation		<u>(79,603,060)</u>	<u>(5,208,657)</u>	<u>276,343</u>	<u>(84,535,374)</u>
		54,939,135	(4,872,136)	-	50,066,999
Non-depreciable utility plant:					
Construction in progress		<u>21,031,725</u>	<u>3,749,532</u>	<u>(1,651,466)</u>	<u>23,129,791</u>
		<u>\$ 75,970,860</u>	<u>\$ (1,122,604)</u>	<u>\$ (1,651,466)</u>	<u>\$ 73,196,790</u>

PALAU PUBLIC UTILITIES CORPORATION
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Notes to Financial Statements
September 30, 2021 and 2020

(8) Long-Term Debt

A. Long-Term Debt

	<u>2021</u>	<u>2020</u>
<p>On September 4, 2006, PPUC entered into a loan with a foreign bank not to exceed \$7,000,000 with interest at 3.5% per annum, due on December 11, 2026, to finance the purchase of portable generators, a crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators. The loan is guaranteed by the Republic of Palau and is to be repaid in thirty-five consecutive semi-annual principal installments of \$200,000 plus interest; the first installment being repaid on the last day of the thirty-sixth month from the date of the initial advance and thereafter semi-annually on the last day of each successive six-month period, until fully paid.</p>	\$2,200,000	\$2,600,000
<p>On April 21, 2010, PPUC entered into a loan with a development bank, an affiliated component unit, for \$3,000,000 to finance the purchase of two generator sets. The loan is due on April 21, 2025 and is collateralized by generator sets inclusive of auxiliary equipment. The loan bears interest of 7.5% per annum and is to be repaid monthly beginning January 30, 2011 in principal and interest payments of \$27,810. The loan was paid in full during the year ended September 30, 2021.</p>	-	1,310,348
<p>On March 28, 2014, PPUC entered into two loans with the Asia Development Bank, (ADB) passed through ROP to finance sanitation projects in the Koror and Airai areas. The first loan is for \$26,900,000 for twenty years with a grace period and bears interest equal to the sum of LIBOR plus 0.60% and a maturity premium of 0.10%. Principal is to be repaid semi-annually beginning April 1, 2018 at 2.5% of the total principal amount outstanding on each payment date. The second loan is for 1,258,000 Special Drawing Rights for twenty years with grace period and bears interest at 1% per annum during the period prior to the first principal payment date and 1.5% per annum thereafter. Principal is to be repaid in semi-annual installments of \$37,040 beginning April 1, 2021. The loans are guaranteed by the Republic of Palau.</p>	22,517,758	21,269,861
<p>On December 10, 2020, PPUC entered into two loans with the Asia Development Bank, (ADB) passed through ROP to improve financial sustainability of PPUC. The initial loan is for \$5,000,000 for twenty years with grace period and bears interest of 2% per annum during the grace period and thereafter. Principal is to be repaid semi-annually beginning June 1, 2026. There have been no drawdowns against the second \$5 million loan as of September 30, 2021. The loans are guaranteed by the Republic of Palau.</p>	5,000,000	-
Total long-term debt	29,717,758	25,180,209
Less current maturities	<u>(1,737,941)</u>	<u>(1,797,161)</u>
	<u>\$ 27,979,817</u>	<u>\$ 23,383,048</u>

PALAU PUBLIC UTILITIES CORPORATION
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Notes to Financial Statements
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(8) Long-Term Debt, Continued

A. Long-Term Debt, Continued

Principal payments for subsequent years ending September 30 and applicable interest due, are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 1,737,941	\$ 268,569	\$ 2,006,510
2023	1,737,941	279,474	2,017,415
2024	1,737,941	269,580	2,007,521
2025	1,737,941	258,773	1,996,714
2026	1,737,941	248,423	1,986,364
2027 - 2031	8,139,706	1,030,952	9,170,658
2032 - 2036	7,939,706	647,196	8,586,902
2037 - 2039	<u>4,948,641</u>	<u>316,990</u>	<u>5,265,631</u>
	<u>\$ 29,717,758</u>	<u>\$ 3,319,957</u>	<u>\$ 33,037,715</u>

Movements in long-term bank debt for the years ended September 30, 2021 and 2020, are as follows:

	Balance at October 1, 2020	<u>Additions</u>	<u>Repayments</u>	Balance at September 30, 2021	Balance Due in One Year
Long-term debt	\$ <u>25,180,209</u>	\$ <u>6,247,897</u>	\$ <u>(1,710,348)</u>	\$ <u>29,717,758</u>	\$ <u>1,737,941</u>
	Balance at October 1, 2019	<u>Additions</u>	<u>Repayments</u>	Balance at September 30, 2020	Balance Due in One Year
Long-term debt	\$ <u>23,415,170</u>	\$ <u>3,036,848</u>	\$ <u>(1,271,809)</u>	\$ <u>25,180,209</u>	\$ <u>1,797,161</u>

Debt Covenants

The loan with a foreign bank includes covenants relating to obtaining and keeping in full force and effect all governmental approvals required in connection with the agreement; promptly giving notice to the lender of any substantial dispute which may exist between the borrower or the guarantor, and furnish or cause to be furnished to the lender all such information and documents as the lender will reasonably request in connection with the borrower's obligations under the agreement.

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(8) Long-Term Debt, Continued

A. Long-Term Debt , Continued

The loan with ADB through ROP include certain covenants under article 4 and 2 of the loan agreement which generally requires PPUC to carry out sanitation projects in the Koror and Airai areas with due diligence and efficiency and with sound applicable technical, financial, business, and development practices.

The covenants also require PPUC to apply all proceeds of the loans to the financing of expenditures on the project in accordance with the provisions of the loan agreements and this project, and shall ensure that all items of expenditures financed out of such proceeds are used exclusively in the carrying out of the project.

Management is of the opinion that except for the non-compliance with paragraph 14, Schedule 5 requiring certain revenue levels for the WWO division, PPUC has complied with the covenants for the years ended September 30, 2021 and 2020.

B. Other Long-Term Liabilities

Changes in other long-term liabilities in fiscal years 2021 and 2020 were as follows:

	Balance at October 1, 2020	Additions	Repayments	Balance at September 30, 2021	Balance Due in One Year
Due to Republic of Palau	\$ 1,800,000	\$ -	\$ 900,000	\$ 900,000	\$ 900,000
Net pension liability	<u>24,776,269</u>	<u>2,920,219</u>	<u>-</u>	<u>27,696,488</u>	<u>-</u>
	<u>\$ 26,576,269</u>	<u>\$ 2,920,219</u>	<u>900,000</u>	<u>\$ 28,596,488</u>	<u>\$ 900,000</u>
	Balance at October 1, 2019	Additions	Repayments	Balance at September 30, 2020	Balance Due in One Year
Due to Republic of Palau	\$ -	\$ 1,800,000	\$ -	\$ 1,800,000	\$ -
Net pension liability	<u>19,976,072</u>	<u>4,800,197</u>	<u>-</u>	<u>24,776,269</u>	<u>-</u>
	<u>\$ 19,976,072</u>	<u>\$ 6,600,197</u>	<u>-</u>	<u>\$ 26,576,269</u>	<u>-</u>

PALAU PUBLIC UTILITIES CORPORATION
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September 30, 2021 and 2020

(9) Pension Plan

A. General Information About the Pension Plan:

Plan Description:

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

The Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Republic of Palau Civil Service Pension Plan, P.O. Box 1767, Koror, Palau 96940.

Membership:

The ROP National Government, ROP State Governments and ROP public corporations, quasi-governmental organizations and other public entities of the National and State Governments of ROP, are participating in the Fund. Membership consisted of the following as of October 1, 2019 (the valuation date):

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

Summary of the Principal Provisions of the Plan:

Effective date:	October 1, 1987
Plan year:	October 1 through September 30

Eligibility to Participate:

All persons becoming full-time employees of a participating agency before attaining the age of sixty shall become members as a condition of employment.

Service:

Vesting Service: Includes membership service and prior service credit.

Membership Service: A year of membership service is earned for a year of service rendered by a participating agency. Years of membership service shall be rounded to the nearest one year. Membership service includes accumulated sick leave and vacation leave.

PALAU PUBLIC UTILITIES CORPORATION
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Notes to Financial Statements
September 30, 2021 and 2020

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Service, Continued:

Prior Service Credit: Persons becoming members of the Plan on October 1, 1987 are entitled to Prior Service Credit for services rendered as an employee of participating agencies, the Trust Territory of the Pacific Islands (TTPI), the United States Naval Government after World War II and before the establishment of the TTPI.

Pension Benefits:

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

In accordance with the directives of RPPL 5-7, the Board of Trustees adopted a resolution which provides that "no person who retires after October 1, 1997, may receive benefits under the Plan unless he or she has contributed to the Plan for at least five years or has made an actuarially equivalent lump sum contribution". In accordance with RPPL 9-2, members who retire after April 30, 2013 must not receive benefits greater than thirty thousand dollars per year. Further, the amount of benefits that a member receives should not be recalculated if the member is re-employed after the member begins receiving benefits under the Fund. Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

Currently, normal benefits are paid monthly and are two percent of each member's average monthly salary for each year of credited total service up to a maximum of thirty years total service. The average annual salary is the average of the highest three consecutive fiscal years of compensation received by a member during his or her most recent ten full fiscal years of service. For members who have not completed three consecutive fiscal years of employment during his or her most recent ten full fiscal years of service, the average annual salary is the average monthly salary during the term of the member's service multiplied by twelve.

PALAU PUBLIC UTILITIES CORPORATION
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Notes to Financial Statements
September 30, 2021 and 2020

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued:

The benefit amount that married members or unmarried members receive, who have elected to designate a beneficiary, is based on the normal benefit amount reduced by the following factors:

<u>Factor</u>	<u>If the Spouse or Beneficiary is:</u>
1.00	21 or more years older than the member
0.95	16 to 20 years older than the member
0.90	11 to 15 years older than the member
0.85	6 to 10 years older than the member
0.80	0 to 5 years younger than the member or 0 to 5 years older than the member
0.75	6 to 10 years younger than the member
0.70	11 to 15 years younger than the member
0.65	16 or more years younger than the member

Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee's accrued benefit pursuant to RPPL 9-2.

A member that meets the requirements for early retirement and elects to retire on an early retirement date is entitled to receive payment of an early retirement benefit equal to the member's normal retirement benefit reduced according to the following schedule based on the age at which early retirement benefit payments begin:

- 1/12th per year for the first 3 years before age 60;
- plus an additional 1/18th per year for the next 3 years;
- plus an additional 1/24th per year for the next 5 years; and
- plus an additional 1/50th per year for each year in excess of 11 years.

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

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

PALAU PUBLIC UTILITIES CORPORATION
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Notes to Financial Statements
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(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued:

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

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

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit. Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

Member Contributions:

Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than fifteen years membership service may elect to receive a refund of all of his or her contributions. Subsequent changes in the percentage contributed by members may be made through an amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Fund through payroll deduction.

Employer and Other Contributions:

Employers are required to contribute an amount equal to that contributed by employees. Pursuant to RPPL No. 2-26 and RPPL No. 3-21, the Government of the ROP must from time to time contribute additional sums to the Fund in order to keep the Fund on a sound actuarial basis. RPPL 9-2 requires the Government of the ROP to make regular contributions to the Fund equal to the amount contributed by each and every employee of the ROP. Additionally, an excise tax of four percent (4%) is levied against each non-citizen person transferring money out of the ROP. The excise tax proceeds must be remitted to the Fund.

PALAU PUBLIC UTILITIES CORPORATION
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Notes to Financial Statements
September 30, 2021 and 2020

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Employer and Other Contributions, Continued:

PPUC contributed \$ 306,662, \$299,877 and \$284,837 to the Fund during the fiscal years 2021, 2020 and 2019, respectively, which was equal to the required statutory contributions for the respective years then ended.

Actuarial Assumptions:

The total pension liability was determined by an actuarial valuation as of September 30, 2019, with a September 30, 2020 measurement date, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method
Amortization Method:	Level dollar, open with remaining amortization period of 30 years
Asset Valuation Method:	Market Value of Assets
Investment Income:	6.74% per year, net of investment expenses, including price inflation
Municipal Bond Index Rate:	2.22%
Year fiduciary net position is projected to be depleted:	2025
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 four years for all members except disability recipients, where the table is set forward ten years
Termination of Employment:	5% for ages 20 to 39; none for all other ages

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(9) Pension Plan, Continued

General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued:

Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%

Retirement Age: 100% at age 60

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

Investment Rate of Return:

The long-term expected rate of return on the Fund's investments of 7.5% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of September 30, 2019, the arithmetic real rates of return for each major investment class are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
US Large Cap Equity	10%	8.70%
US Small/Mid Cap Equity	10%	9.13%
International Equity	15%	9.19%
Emerging Markets	10%	12.52%
US Aggregate Fixed Income	35%	3.82%
Global Broad Fixed Income	10%	3.40%
Global REIT	<u>10%</u>	8.33%
	<u>100%</u>	

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Notes to Financial Statements
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(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Discount Rate:

The discount rate used to measure the total pension liability was 2.28% at the current measurement date and 2.85% 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 2025. For years on or after 2025, the Municipal Bond Index Rate of 2.22% was used. The Municipal Bond Index Rate from the prior measurement date was 2.81%.

Sensitivity of Net Pension Liability to Changes in the Discount Rate:

The following presents PPUC's proportionate share of the net pension liability of the Fund as of September 30, 2020, calculated using the discount rate of 2.28% as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.28%) or 1.00% higher (3.28%) from the current rate.

	1% Decrease <u>1.28%</u>	Current Single Discount Rate Assumption <u>2.28%</u>	1% Increase <u>3.28%</u>
EPO	\$ 18,965,660	\$ 16,251,417	\$ 13,356,578
WWO	<u>13,356,578</u>	<u>11,445,071</u>	<u>9,868,436</u>
	<u>\$ 32,322,238</u>	<u>\$ 27,696,488</u>	<u>\$ 23,225,014</u>

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

Pension Liability:

As of September 30, 2021 and 2020, PPUC's proportionate share of the ROP net pension liability and PPUC's proportion of the ROP overall liability is as follows:

	<u>Proportionate share of the net pension liability</u>	<u>Proportion of the overall liability</u>
2021:		
EPO	\$ 16,251,417	4.72%
WWO	<u>11,445,071</u>	3.32%
	<u>\$ 27,696,488</u>	
2020:		
EPO	\$ 14,354,796	4.65%
WWO	<u>10,421,473</u>	3.38%
	<u>\$ 24,776,269</u>	

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Notes to Financial Statements
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(9) Pension Plan, Continued

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

Pension Expense:

For the years ended September 30, 2021 and 2020, PPUC recognized pension expense as follows:

	<u>2021</u>	<u>2020</u>
EPO	\$ 1,274,616	\$ 1,221,119
WFO	<u>874,029</u>	<u>804,284</u>
	<u>\$ 2,148,645</u>	<u>\$ 2,025,403</u>

Deferred Outflows and Inflows of Resources:

At September 30, 2021 and 2020, PPUC reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>EPO:</u>				
Changes of assumptions	\$ 3,487,303	\$ 1,021,538	\$ 2,979,085	\$ 1,308,658
Net difference between projected and actual earnings on pension plan investments	30,364	20,802	39,922	34,075
Difference between expected and actual experience	546,999	429,894	729,995	559,630
Contributions subsequent to the measurement date	175,804	-	168,989	-
Changes in proportion and difference between EPO contributions and proportionate share of contributions	<u>1,465,740</u>	<u>227,111</u>	<u>1,689,965</u>	<u>320,733</u>
	<u>5,706,210</u>	<u>1,699,345</u>	<u>5,607,956</u>	<u>2,223,096</u>
<u>WFO:</u>				
Changes of assumptions	2,455,936	719,419	2,162,793	950,075
Net difference between projected and actual earnings on pension plan investments	21,384	14,650	28,983	24,738
Difference between expected and actual experience	385,224	302,753	529,971	406,287
Contributions subsequent to the measurement date	130,858	-	130,888	-
Changes in proportion and difference between WFO contributions and proportionate share of contributions	<u>911,129</u>	<u>126,117</u>	<u>1,151,758</u>	<u>31,270</u>
	<u>3,904,531</u>	<u>1,162,939</u>	<u>4,004,393</u>	<u>1,412,370</u>
	<u>\$ 9,610,741</u>	<u>\$ 2,862,284</u>	<u>\$ 9,612,349</u>	<u>\$ 3,635,466</u>

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Notes to Financial Statements
September 30, 2021 and 2020

(9) Pension Plan, Continued

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

Deferred Outflows and Inflows of Resources, Continued:

Deferred outflows resulting from contributions subsequent to 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 at September 30, 2021 will be recognized in pension expense as follows:

Year Ending September 30,

EPO:		
	2022	\$ 904,861
	2023	915,496
	2024	740,093
	2025	580,073
	2026	501,550
	Thereafter	<u>188,988</u>
		<u>3,831,061</u>
WFO:		
	2022	627,788
	2023	605,295
	2024	458,959
	2025	422,285
	2026	393,572
	Thereafter	<u>102,835</u>
		<u>2,610,734</u>
		\$ <u>6,441,795</u>

(10) Related Party Transactions

Sale of Utility Services

Utility services of \$4,938,083 and \$6,101,427 were rendered to the ROP for the years ended September 30, 2021 and 2020, respectively. PPUC provides utility services to the ROP at the same rates charged to third parties.

Receivables of \$461,660 and \$731,132 (excluding unbilled receivables of \$186,154 and \$200,762 as of September 30, 2021 and 2020, respectively) are due from the ROP for utility services as of September 30, 2021 and 2020, respectively, and are included in the receivable from affiliate in the accompanying statements of net position. Of these receivables, \$50,279 and \$167,525 as of September 30, 2021 and 2020, respectively, have been outstanding for more than ninety days.

Loans from the ROP

On March 28, 2014, PPUC entered into two loans passed through ROP to finance sanitation projects in Koror and Airai areas (see note 8).

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Notes to Financial Statements
September 30, 2021 and 2020

(10) Related Party Transactions, Continued

Due to ROP

On April 9, 2020, PPUC received a reimbursable subsidy pursuant to RPPL 10-53 section 16 for power operations and improvements (see note 8).

Subsidies from the ROP

As part of the transfer agreement of the WWO (see note 1), the ROP was to transfer all grants, appropriations and authorized loan proceeds to PPUC to cover WWO operating costs. For the year ended September 30, 2020, PPUC recognized \$1,600,000 of WWO operating subsidies from the ROP.

Due to a restriction on PPUC's ability to increase its electricity tariffs, ROP provided a \$500,000 appropriation to help reduce the impact of rising fuel prices for the year ended September 30, 2020.

(11) Commitments

Lease

PPUC entered into an agreement on October 14, 1999 with the Republic of Palau, State of Koror and Koror State Public Land Authority, in which PPUC is granted the use and exclusive possession of real property located in Malakal (on which the Malakal Power Plant is located) for a term of thirty years. PPUC is not required to pay rent or fees for its use of the property.

Fuel Supply

In December 2017, PPUC entered into a 5-year fuel supply contract effective until December 31, 2022 for the purchase of production fuel and lubricants. The purchase price is based on movements of the base price for fuel.

In March 2018, PPUC entered into a 3-year fuel supply contract effective until March 31, 2021 for the purchase of production and vehicle fuels. This supply contract was automatically extended until March 31, 2023. The purchase price is based on movements of the base price for fuel and lubricants.

Capital Commitments

As of September 30, 2020, PPUC has various on-going construction contracts with a \$28 million contract price of which \$22 million is recorded as construction in progress.

(12) Contingencies

Self-Insurance

PPUC currently does not maintain insurance coverage with respect to its inventory and utility plant. In the event of a loss, PPUC will be self-insured for the entire amount (see note 13).

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Notes to Financial Statements
September 30, 2021 and 2020

(12) Contingencies, Continued

Utility Charge Credits, Continued

Utility Charge Credits

Under the provisions of RPPL 4-51, PPUC shall credit from future electric utility charges the actual cost, including freight and insurance, incurred by any non-governmental electric utility customer, or incurred by any state government customer prior to the transfer of the Aimeliik Power Plant to PPUC, to purchase transformers, cables, and meter bases necessary to connect such customer to the electric power distribution system; provided, however, that the customer is not entitled to such credit unless it has obtained written confirmation from PPUC that the types of transformers, cables and meter bases are suitable to connect the customer to the electric power distribution system and that the proposed cost is reasonable. The expected credit from future electric utility charges cannot be presently determined and, accordingly, no provision for any credit has been recognized in the accompanying financial statements.

Litigation

PPUC is involved in various legal proceedings arising in the normal course of business. It is the opinion of management, after consulting with its legal counsel, that the ultimate disposition of such legal proceedings will not have a material adverse effect on the financial statements.

Pension Plan Net Position

The Republic of Palau Civil Service Pension Trust Fund's actuarial valuation has determined that the Fund's fiduciary net position will be negative by 2025 if no changes are made in contributions and/or benefits.

Construction Delays

PPUC has \$28 million of construction contracts in relation to sanitation projects in Koror and Airai areas. Due to delays in the construction, PPUC was billed a total of \$2 million as of September 30, 2021, included in nonoperating expenses in the accompanying statement of revenues, expenses and changes in net position, representing opportunity costs lost by the contractor. As construction is still ongoing, additional charges may be billed to PPUC for delays.

Construction in Progress (CIP) Realization

As a result of the COVID-19 pandemic and disagreements with contractors, PPUC has experienced delays in completion of certain CIP projects carried at approximately \$10 million at September 30, 2021. These delays may impact realization of costs incurred on these projects.

(13) Risk Management

PPUC 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. PPUC has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed, except for inventory and utility plant. Settled claims from insured risks have not exceeded commercial insurance coverage in the past three years.

PALAU PUBLIC UTILITIES CORPORATION
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Notes to Financial Statements
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(14) Dependency on the Republic of Palau

WWO incurred an operating loss of \$5,004,453 and \$4,673,281 for the years ended September 30, 2021 and 2020, respectively. PPUC will continue to depend on ROP subsidies until the WWO has achieved a full cost recovery as mandated by the RPPL 9-4. Management is also reducing costs to essential expenditures. In January 2022, PPUC received a \$1.55 million subsidy from ROP.

(15) Subsequent Event

Management has considered subsequent events through December 19, 2022, upon which the financial statements were available to be issued. Other than as disclosed in Note 14, there are no other material subsequent events that would require recognition or disclosure in the financial statements for the year ended September 30, 2021.

PALAU PUBLIC UTILITIES CORPORATION
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Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016
Total Republic of Palau net pension liability	\$ 344,384,167	\$ 308,480,463	\$ 250,868,784	\$ 259,395,005	\$ 249,453,960	\$ 215,546,176
PPUC's proportionate share of the net pension liability	\$ 27,696,488	\$ 24,776,269	\$ 19,976,072	\$ 18,054,380	\$ 16,006,220	\$ 13,674,468
PPUC's proportion of the net pension liability	8.04%	8.03%	7.96%	6.96%	6.42%	6.34%
PPUC's covered-employee payroll**	\$ 4,932,300	\$ 4,799,783	\$ 4,671,500	\$ 4,032,283	\$ 3,398,382	\$ 3,076,703
PPUC's proportionate share of the net pension liability as percentage of its covered employee payroll	561.53%	516.20%	427.62%	447.75%	471.00%	444.45%
Plan fiduciary net position as a percentage of the total pension liability	8.42%	8.26%	10.24%	10.18%	10.55%	11.54%

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

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

See Accompanying Independent Auditors' Report.

PALAU PUBLIC UTILITIES CORPORATION
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Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 1,267,039	\$ 1,131,733	\$ 1,378,558	\$ 1,195,686	\$ 925,093	\$ 691,501
Contribution in relation to the actuarially determined contribution	<u>\$ 295,938</u>	<u>287,987</u>	<u>280,290</u>	<u>241,937</u>	<u>201,110</u>	<u>183,373</u>
Contribution deficiency	<u>\$ 971,101</u>	<u>\$ 843,746</u>	<u>\$ 1,098,268</u>	<u>\$ 953,749</u>	<u>\$ 723,983</u>	<u>\$ 508,128</u>
PPUC's covered-employee payroll **	<u>\$ 4,932,300</u>	<u>\$ 4,799,783</u>	<u>\$ 4,671,500</u>	<u>\$ 4,032,283</u>	<u>\$ 3,398,382</u>	<u>\$ 3,076,703</u>
Contribution as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	5.92%	5.96%

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

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

See Accompanying Independent Auditors' Report.

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Combining Statement of Net Position
September 30, 2021

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Utility plant:				
Depreciable utility plant	\$ 26,096,307	\$ 19,444,423	\$ -	\$ 45,540,730
Non-depreciable utility plant	969,098	23,605,292	-	24,574,390
Net utility plant	<u>27,065,405</u>	<u>43,049,715</u>	<u>-</u>	<u>70,115,120</u>
Current assets:				
Cash and cash equivalents	7,514,293	2,457,775	-	9,972,068
Receivables:				
Trade	2,638,870	1,569,262	-	4,208,132
Affiliate	8,557,316	116,183	(8,211,839)	461,660
Contracts	58,783	83,185	-	141,968
Other	29,608	539	-	30,147
	<u>11,284,577</u>	<u>1,769,169</u>	<u>(8,211,839)</u>	<u>4,841,907</u>
Less allowance for doubtful accounts	<u>(1,263,401)</u>	<u>(1,067,373)</u>		<u>(2,330,774)</u>
Net receivables	<u>10,021,176</u>	<u>701,796</u>	<u>(8,211,839)</u>	<u>2,511,133</u>
Prepaid expenses	807,754	180,857	-	988,611
Inventory, net	9,666,703	1,263,655	-	10,930,358
Total current assets	<u>28,009,926</u>	<u>4,604,083</u>	<u>(8,211,839)</u>	<u>24,402,170</u>
Other non-current assets:				
Contracts receivable, net of current portion	145,690	124,095	-	269,785
Total assets	<u>55,221,021</u>	<u>47,777,893</u>	<u>(8,211,839)</u>	<u>94,787,075</u>
Deferred outflows of resources from pension	5,706,210	3,904,531		9,610,741
	<u>\$ 60,927,231</u>	<u>\$ 51,682,424</u>	<u>\$ (8,211,839)</u>	<u>\$ 104,397,816</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>				
Net position:				
Net investment in utility plant	\$ 26,009,405	\$ 19,231,957	\$ -	\$ 45,241,362
Unrestricted	3,099,735	(13,546,525)	-	(10,446,790)
Total net position	<u>29,109,140</u>	<u>5,685,432</u>	<u>-</u>	<u>34,794,572</u>
Current liabilities:				
Current portion of long-term debt	400,000	1,337,941	-	1,737,941
Due to Republic of Palau	900,000	-	-	900,000
Accounts payable	5,049,115	8,905,139	(8,211,839)	5,742,415
Accrued expenses	587,679	509,297	-	1,096,976
Advances from ROP	421,760	-	-	421,760
Customer deposits	1,008,775	156,788	-	1,165,563
Total current liabilities	<u>8,367,329</u>	<u>10,909,165</u>	<u>(8,211,839)</u>	<u>11,064,655</u>
Long-term debt, net of current portion	5,500,000	22,479,817	-	27,979,817
Net pension liability	16,251,417	11,445,071	-	27,696,488
Total liabilities	<u>30,118,746</u>	<u>44,834,053</u>	<u>(8,211,839)</u>	<u>66,740,960</u>
Deferred inflows of resources from pension	1,699,345	1,162,939	-	2,862,284
	<u>\$ 60,927,231</u>	<u>\$ 51,682,424</u>	<u>\$ (8,211,839)</u>	<u>\$ 104,397,816</u>

See accompanying independent auditors' report.

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Combining Statement of Revenues, Expenses and Change in Net Position
Year Ended September 30, 2021

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Operating revenues:				
Power	\$ 15,414,234	\$ -	\$ (1,925,617)	\$ 13,488,617
Water	-	2,702,784	(60,305)	2,642,479
Wastewater	-	1,431,031	-	1,431,031
Other	1,012,019	228,636	-	1,240,655
Total operating revenues	16,426,253	4,362,451	(1,985,922)	18,802,782
Provision for uncollectible receivables	(82,722)	(136,828)	-	(219,550)
Net operating revenues	16,343,531	4,225,623	(1,985,922)	18,583,232
Operating expenses:				
Generation - fuel	10,735,669	-	-	10,735,669
Depreciation	2,902,987	2,108,217	-	5,011,204
Generation - other cost	1,894,808	-	(8,264)	1,886,544
Administration	1,927,349	1,309,463	(38,854)	3,197,958
Distribution and transmission	2,079,364	-	(19,863)	2,059,501
Engineering services	905,940	-	(4,880)	901,060
Renewable energy	223,155	-	(4,880)	218,275
Water operations	-	4,647,794	(1,590,537)	3,057,257
Wastewater operations	-	1,164,602	(318,644)	845,958
Total operating expenses	20,669,272	9,230,076	(1,985,922)	27,913,426
Operating loss	(4,325,741)	(5,004,453)	-	(9,330,194)
Nonoperating revenues (expenses):				
Operating subsidies from the Republic of Palau	20,802	-	-	20,802
Grants	23,925	209,900	-	233,825
Interest income	610	205	-	815
Loss on disposal of assets	(314,275)	(22,830)	-	(337,105)
Interest expense	(102,506)	(176,571)	-	(279,077)
Others	(14,723)	(570,051)	-	(584,774)
Total nonoperating revenues (expenses), net	(386,167)	(559,347)	-	(945,514)
Change in net position	(4,711,908)	(5,563,800)	-	(10,275,708)
Net position at beginning of year	33,821,048	11,249,232	-	45,070,280
Net position at end of year	\$ 29,109,140	\$ 5,685,432	\$ -	\$ 34,794,572

See accompanying independent auditors' report.

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Combining Statement of Cash Flows
Year Ended September 30, 2021

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Cash flows from operating activities:				
Cash received from customers	\$ 14,898,357	\$ 4,388,879	\$ (1,985,922)	\$ 17,301,314
Cash payments to suppliers for goods and services	(13,454,375)	(2,317,469)	1,985,922	(13,785,922)
Cash payments to employees for services	<u>(3,383,928)</u>	<u>(2,633,495)</u>	-	<u>(6,017,423)</u>
Net cash provided by (used in) operating activities	<u>(1,939,946)</u>	<u>(562,085)</u>	-	<u>(2,502,031)</u>
Cash flows from investing activities:				
Interest income (expense)	<u>610</u>	<u>203</u>	-	<u>813</u>
Cash flows from non-capital financing activities:				
Appropriations received from the Republic of Palau	20,802	-	-	20,802
Cash received from grantor agencies	23,925	209,900	-	233,825
Other non-capital activities	<u>(14,723)</u>	<u>(570,051)</u>	-	<u>(584,774)</u>
Net cash provided by non-capital financing activities	<u>30,004</u>	<u>(360,151)</u>	-	<u>(330,147)</u>
Cash flows from capital and related financing activities:				
Proceeds from issuance of long-term debt	3,700,000	2,547,897	-	6,247,897
Principal payment on long-term debt	(1,710,348)	-	-	(1,710,348)
Interest paid on long-term debt	(107,897)	(176,571)	-	(284,468)
Repayments of reimbursable grant from Republic of Palau	(900,000)	-	-	(900,000)
Acquisition of utility plant	<u>(407,022)</u>	<u>(1,859,617)</u>	-	<u>(2,266,639)</u>
Net cash provided by capital and related financing activities	<u>574,733</u>	<u>511,709</u>	-	<u>1,086,442</u>
Net change in cash and cash equivalents	(1,334,599)	(410,324)	-	(1,744,923)
Cash and cash equivalents at beginning of year	<u>8,848,892</u>	<u>2,868,099</u>	-	<u>11,716,991</u>
Cash and cash equivalents at end of year	<u>\$ 7,514,293</u>	<u>\$ 2,457,775</u>	<u>\$ -</u>	<u>\$ 9,972,068</u>
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	\$ (4,325,741)	\$ (5,004,453)	\$ -	\$ (9,330,194)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	2,902,987	2,108,217	-	5,011,204
Provision for uncollectible receivables	82,722	136,828	-	219,550
Pension expense	1,274,616	874,029	-	2,148,645
(Increase) decrease in assets:				
Receivables:				
Trade	210,695	55,959	-	266,654
Affiliate	(1,654,984)	12,796	1,911,660	269,472
Contracts	(48,461)	(41,411)	-	(89,872)
Other	14,317	10	-	14,327
Prepaid expenses	(482,404)	(88,968)	-	(571,372)
Inventory	(3,177,398)	(151,831)	-	(3,329,229)
Increase (decrease) in liabilities:				
Accounts payable	3,276,156	1,529,325	(1,911,660)	2,893,821
Accrued expenses	37,014	8,339	-	45,353
Grant advances from the Republic of Palau	(60,642)	-	-	(60,642)
Customer deposits	<u>11,177</u>	<u>(925)</u>	-	<u>10,252</u>
Net cash used in operating activities	<u>\$ (1,939,946)</u>	<u>\$ (562,085)</u>	<u>\$ -</u>	<u>\$ (2,502,031)</u>

See accompanying independent auditors' report.

PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Schedule of Revenues and Expenses (Before Eliminations)
Year Ended September 30, 2021

	Electric Power Operations	Water and Wastewater Operations
Operating revenues:		
Commercial	\$ 4,943,242	\$ 1,383,953
Residential	5,117,814	2,125,765
Government	876,906	162,284
Republic of Palau and component units	4,476,272	461,813
Other	1,012,019	228,636
	\$ 16,426,253	\$ 4,362,451
Operating expenses:		
Personnel costs:		
Salaries and wages	\$ 3,295,963	\$ 2,348,675
Employee benefits	486,004	354,032
Other employee benefits	61,592	35,133
Pension expense adjustment - GASB 68	1,274,616	874,030
Total personnel costs	5,118,175	3,611,870
Generation - fuel	10,735,669	-
Depreciation	2,902,987	2,108,217
Repairs and maintenance	983,358	750,742
Utilities	60,306	1,925,617
Small tools and equipment	71,169	42,270
Professional services	74,874	46,870
Gas and oil	151,440	104,244
Insurance	111,013	36,235
Supplies	78,382	49,528
Communication	73,464	47,230
Rent	39,496	26,230
Water treatment chemicals	-	363,716
Others	268,939	117,307
	\$ 20,669,272	\$ 9,230,076

See accompanying independent auditors' report.