

PROTECTED AREAS NETWORK FUND
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

INDEPENDENT AUDITORS' REPORT

Board of Directors
Protected Areas Network Fund:

Report on the Financial Statements

We have audited the accompanying financial statements of the Protected Areas Network Fund (PAN Fund), 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.

Auditor's 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 audits 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 Protected Areas Network Fund as of September 30, 2021 and 2020, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Economic uncertainties as a result of the COVID-19 coronavirus pandemic may negatively impact PAN Fund's financial results as described in note 6 to the financial statements.

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 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2022 on our consideration of PAN Fund'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 PAN Fund'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 PAN Fund's internal control over financial reporting and compliance.



November 10, 2022



Protected Areas Network Fund

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Management's Discussion and Analysis Year Ended September 30, 2021

This report presents a management's discussion and analysis of the Protected Areas Network Fund's (PANF) financial performance during the fiscal year ended September 30, 2021 with selected comparative information for fiscal years September 30, 2020 and September 30, 2019.

ORGANIZATION AND PURPOSE

The mission of PANF is to "efficiently and equitably provide funding to the Protected Areas Network, and its associated activities, through strategic actions and medium- to long-term financial support that will advance effective management and conservation of Palau's natural and cultural resources." The types of funds administered, managed and invested by PANF as the financial trustee corporation to the PAN include the green fee, grants, and income derived from investment. The allocation of funds is prioritized based on annual work plans developed annually which outline key activities to be undertaken each fiscal year. The annual work plans are developed based on system wide strategic plan and site specific management plans. Funds are disbursed on a quarterly basis and are subject to verification of programs and activities implemented.

FINANCIAL HIGHLIGHTS

PANF's total net position decreased by a little over 1% from \$3,084,776 in fiscal year 2020 to \$3,040,855 in fiscal year 2021; decreased by 15% from \$3,626,988 in 2019 to \$3,084,776 in 2020. Total current liabilities decreased from \$108,107 in fiscal year 2020 to \$78,638 in fiscal year 2021; increased by 20% from \$90,058 in fiscal year 2019 to \$108,107 in fiscal year 2020. Current liabilities for fiscal year 2021 include accruals for personnel expenses of \$8,519, unearned revenue for grants payments of \$20,208 and the amount owed to ROP of \$38,035. The amount owed to ROP is attributed to a change in the payment process for green fees at the Bureau of National Treasury, which resulted in PANF owing ROP at September 30, 2021.

Operating expenses further decreased by 34% from \$1,898,288 in fiscal year 2020 to \$1,250,747 in fiscal year 2021; decreased by .3% from \$1,903,536 in fiscal year 2019 to \$1,898,288 in 2020. Non-operating revenues decreased by 11% from \$1,356,076 in fiscal year 2020 to \$1,206,826 in fiscal year 2021; reduced by 30% from \$1,939,986 in fiscal year 2019 to \$1,356,076 in fiscal year 2020. The decrease in operating expenses and operating revenues are linked to reduced green fee revenues for the latter part of fiscal year 2020 and all of fiscal year 2021.

Effects of COVID 19 and changing policy on green fee distribution contributed to an unfavorable impact on the level of green fee revenues for fiscal year 2021. By the end of the fiscal year 2021 what could have been a revenue of \$55,000 ended up being \$38,035 owed to ROP. An OEK appropriation of \$451,500 received in fiscal year 2021 enabled PANF to maintain PAN operations while reallocating endowment earnings earmarked for fiscal year 2020 to supplement funding for fiscal year 2022. This was done in anticipation of a reduction in green fees for fiscal year 2021.



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Management's Discussion and Analysis Year Ended September 30, 2021

OVERVIEW OF FINANCIAL STATEMENTS

Statements of Net Position:

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|--------------------|--------------------|--------------------|
| Current assets | \$3,138,225 | \$3,186,411 | \$3,710,175 |
| Fixed assets | <u>6,268</u> | <u>6,472</u> | <u>6,871</u> |
| Total assets | <u>\$3,144,493</u> | <u>\$3,192,883</u> | <u>\$3,717,046</u> |
| Current liabilities | <u>\$ 78,638</u> | <u>\$ 108,107</u> | <u>\$ 90,058</u> |
| Long-term liabilities | <u>25,000</u> | <u>-</u> | <u>-</u> |
| Net position: | | | |
| Invested in capital assets | 6,268 | 6,472 | 6,871 |
| Restricted | <u>3,034,587</u> | <u>3,078,340</u> | <u>3,620,117</u> |
| Total net position | <u>3,040,855</u> | <u>3,084,776</u> | <u>3,626,988</u> |
| Total liabilities and net position | <u>\$3,144,493</u> | <u>\$3,192,883</u> | <u>\$3,717,046</u> |
| Operating revenues | \$ - | \$ - | \$ - |
| Operating expenses | <u>1,250,747</u> | <u>1,898,288</u> | <u>1,903,536</u> |
| Operating loss | (1,250,747) | (1,898,288) | (1,903,536) |
| Non-operating revenues | <u>1,206,826</u> | <u>1,356,076</u> | <u>1,939,986</u> |
| Change in net position | (43,921) | (542,212) | 36,450 |
| Net position at beginning of year | <u>3,084,776</u> | <u>3,626,988</u> | <u>\$3,590,538</u> |
| Net position at end of year | <u>3,040,855</u> | <u>3,084,776</u> | <u>\$3,626,988</u> |
| Cash flows from operating activities | (1,348,040) | (1,871,051) | (2,150,304) |
| Cash flows from investing activities | 568,768 | 495,357 | 278,445 |
| Cash flows from noncapital financing activities | <u>452,326</u> | <u>928,984</u> | <u>1,236,692</u> |
| Net decrease/increase in cash | (326,946) | (446,710) | (635,167) |
| Cash at beginning of year | <u>1,561,154</u> | <u>2,007,864</u> | <u>2,643,031</u> |
| Cash at end of year | <u>\$1,234,208</u> | <u>\$1,561,154</u> | <u>\$2,007,864</u> |



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Management's Discussion and Analysis Year Ended September 30, 2021

No material changes in capital assets occurred during the periods and PANF does not engage in borrowings.

Management's Discussion and Analysis for the year ended September 30, 2020 is set forth in the PANF's report on the audit of financial statements, which is dated September 20, 2021.

FINANCIAL OUTLOOK

The outlook for fiscal year 2023 and 2024 remain uncertain despite projections that green fee collections will likely increase in fiscal year 2023 into 2024. The Bureau of Budget and Planning is projecting \$1,252,000 in green fees to PAN for fiscal year 2023 and \$1,346,000 for fiscal year 2024. Green fees collected by PANF in fiscal year 2022 to fund fiscal year 2023 is \$63,320. Total endowment earnings drawn in February 2022 and earmarked for fiscal year 2023 is approximately \$553,792 contributing to total available funding of \$617,112.

The performance of the reserve funds and the endowment fund is also uncertain given that the capital markets remain highly volatile. There's a lot of uncertainty, not just about inflation but supply chain issues and the fallout of the ongoing war in Ukraine which could directly or indirectly affect the performance and the market value for both funds. This could affect the level of earnings that can be used to operate PAN.

Ultimately, the goal remains the same and that is to prolong the ability to operate until "business as usual" is achieved. In the short-term, PANF may need to draw from its reserves or to use future drawdowns from endowment earnings to maintain liquidity until economic activity from tourism improves. In doing so, PANF will need to be conscious about the opportunity cost. Any drawdown would need to be timed to minimize impact on the funds. Prolonging the ability to operate can only be achieved through a controlled budget measures that maintain budgets at minimum levels. This would require prioritization activities to be funded. In the long term, PANF would need to accelerate its efforts to support PAN Sites achieving sustainable development and site-based endowment programs. In addition, PANF would need to scale up its effort to increase the endowment to a level that can contribute more in earnings to support PAN.

CONCLUDING SUMMARY

The Management's Discussion and Analysis for the year ended September 30, 2021 explains the major factors impacting the 2021 financial statements. This report is designed to demonstrate PANF's accountability for the money it receives and manages for PAN and the opportunities and challenges faced in achieving sustainable financing for the Palau Protected Areas Network. If you have questions about this report, or need additional information, please send inquiries via the Protected Areas Network Fund, P.O. Box 6094, Koror, Republic of Palau 96940, or contact the following: Phone: (680) 488-FUND (3863)|Fax: (680) 488-1314|Email: info@palaupanfund.org.

PROTECTED AREAS NETWORK FUND

Statements of Net Position
September 30, 2021 and 2020

| | <u>ASSETS</u> | <u>2021</u> | <u>2020</u> |
|--------------------------------------|-------------------------------------|---------------------|---------------------|
| Current assets: | | | |
| Cash | | \$ 1,234,208 | \$ 1,561,154 |
| Investments: | | | |
| Corporate stock | | 1,255,154 | 961,178 |
| U.S. Government obligations | | 235,115 | 258,069 |
| Corporate bonds | | 256,516 | 216,709 |
| Money market funds | | 112,375 | 109,650 |
| Total investments | | <u>1,859,160</u> | <u>1,545,606</u> |
| Due from Republic of Palau | | - | 49,785 |
| Prepaid expenses | | 44,857 | 29,866 |
| Total current assets | | 3,138,225 | 3,186,411 |
| Capital assets, net | | <u>6,268</u> | <u>6,472</u> |
| | | <u>\$ 3,144,493</u> | <u>\$ 3,192,883</u> |
| | <u>LIABILITIES AND NET POSITION</u> | | |
| Current liabilities: | | | |
| Accounts payable | | \$ 10,671 | \$ 39,340 |
| Accrued expenses | | 8,519 | 18,306 |
| Due to Micronesia Conservation Trust | | 1,205 | 45,255 |
| Due to Republic Of Palau | | 38,035 | - |
| Unearned revenue | | 20,208 | 5,206 |
| Total current liabilities | | <u>78,638</u> | <u>108,107</u> |
| Long Term liabilities: | | | |
| Funds held in trust | | 25,000 | - |
| Total liabilities | | <u>103,638</u> | <u>108,107</u> |
| Commitment | | | |
| Net position: | | | |
| Net investment in capital assets | | 6,268 | 6,472 |
| Restricted | | 3,034,587 | 3,078,304 |
| Total net position | | <u>3,040,855</u> | <u>3,084,776</u> |
| | | <u>\$ 3,144,493</u> | <u>\$ 3,192,883</u> |

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

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

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Operating revenues | \$ - | \$ - |
| Operating expenses: | | |
| PAN site/states | 879,529 | 1,282,544 |
| Salaries and wages | 105,068 | 124,835 |
| PAN Institutional System | 81,246 | 185,889 |
| Bad debts | 69,820 | - |
| Rent | 36,000 | 36,000 |
| Special projects | 30,138 | 96,225 |
| Employee benefits | 14,047 | 17,952 |
| Other | 10,930 | 8,491 |
| Audit | 10,000 | 10,000 |
| Communications | 6,098 | 8,242 |
| Grants | 3,465 | 82,173 |
| Utilities | 2,192 | 3,542 |
| Repairs and maintenance | 1,110 | 1,721 |
| Micronesia Conservation Trust contribution | 900 | 32,549 |
| Depreciation | 204 | 399 |
| Professional development | - | 6,125 |
| Advertisements | - | 1,601 |
| Total operating expenses | <u>1,250,747</u> | <u>1,898,288</u> |
| Operating loss | <u>(1,250,747)</u> | <u>(1,898,288)</u> |
| Nonoperating revenues: | | |
| Transfer in from Republic of Palau | 450,142 | 660,981 |
| Investment earnings from MCT | 507,276 | 495,357 |
| Investment income, net | 245,473 | 115,936 |
| Grant revenue | 3,465 | 82,173 |
| Interest income | 470 | 1,629 |
| Total nonoperating revenues | <u>1,206,826</u> | <u>1,356,076</u> |
| Change in net position | (43,921) | (542,212) |
| Net position at beginning of year | <u>3,084,776</u> | <u>3,626,988</u> |
| Net position at end of year | <u>\$ 3,040,855</u> | <u>\$ 3,084,776</u> |

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

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

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|-----------------------|
| Cash flows from operating activities: | | |
| Cash payments to PAN sites/states and institutional system | \$ (971,446) | \$ (1,429,093) |
| Cash payments to suppliers for goods and services | (248,004) | (300,387) |
| Cash payments to employees for services | <u>(128,590)</u> | <u>(141,571)</u> |
| Net cash used for operating activities | <u>(1,348,040)</u> | <u>(1,871,051)</u> |
| Cash flows from investing activities: | | |
| Investment earnings | <u>568,768</u> | <u>495,357</u> |
| Net cash provided by investing activities | <u>568,768</u> | <u>495,357</u> |
| Cash flows from noncapital financing activities: | | |
| Transfer in from Republic of Palau | 438,392 | 879,841 |
| Cash received from grants | (11,536) | 47,393 |
| Interest income | 470 | 1,629 |
| Other | <u>25,000</u> | <u>121</u> |
| Net cash provided by noncapital financing activities | <u>452,326</u> | <u>928,984</u> |
| Net decrease in cash | (326,946) | (446,710) |
| Cash at beginning of year | <u>1,561,154</u> | <u>2,007,864</u> |
| Cash at end of year | <u>\$ 1,234,208</u> | <u>\$ 1,561,154</u> |
| Reconciliation of operating loss to net cash used for operating activities: | | |
| Operating loss | \$ (1,250,747) | \$ (1,898,288) |
| Adjustments to reconcile operating loss to net cash used for operating activities: | | |
| Depreciation | 204 | 399 |
| (Increase) decrease in assets: | | |
| Prepaid expenses | (14,991) | (25,991) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (28,669) | 19,065 |
| Accrued expenses | (9,787) | 1,216 |
| Due to Micronesia Conservation Trust | <u>(44,050)</u> | <u>32,548</u> |
| Net cash used for operating activities | <u>\$ (1,348,040)</u> | <u>\$ (1,871,051)</u> |

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2021 and 2020

(1) Organization

The Protected Areas Network Fund (PAN Fund), a component unit of the Republic of Palau (ROP), was formed on May 2, 2008, under the provisions of the Republic of Palau Public Law (RPPL) No. 7-42 for the purpose of administering and managing all funds received for the financial sustainability of the Protected Areas Network (the PAN) in Palau and for other related purposes. Portions of RPPL 7-42 were revised by RPPL 8-9 and RPPL 8-18. The Law created a registered non-profit corporation under the ROP corporate registry managed by a Board of Directors, consisting of seven voting members and the ROP Minister of Finance and the ROP Minister of Resources and Development, appointed in accordance with PAN Fund's Articles of Incorporation and approved by no less than two thirds of the Senate of the Olbiil Era Kelulau (ROP National Congress). PAN Fund's non-profit corporate charter was issued on November 2, 2010 by ROP and operations formally launched on March 24, 2012 upon receiving tourist and visitor environmental protection and arrival fee (Green Fee) monies from the ROP Ministry of Finance (MOF).

RPPL 7-42 authorized MOF to implement Green Fees to be used for the purpose of the operation of the PAN and to be deposited into an account at the National Treasury. The ROP Minister of Finance shall subsequently transfer the funds collected to the PAN Fund. RPPL 9-15, passed into law on August 29, 2013 and effective for fiscal year 2014, reduced amounts transferred to the PAN Fund to 50% of Green Fees collected or \$2,000,000, whichever is less. During the years ended September 30, 2021 and 2020, MOF remitted \$18,000 and \$650,981, respectively, for this purpose, which PAN Fund recorded as transfers in from ROP. PAN Fund recorded \$10,000 as transfers in from ROP for audit expense reimbursement for the year ended September 30, 2020. Additionally, PAN Fund received appropriations from ROP in 2021 of \$431,500 and recorded a liability to ROP of \$38,035 for overpayments received in prior years. The receivables and transfers with ROP constitute all of PAN Fund's related party transactions, except for certain immaterial grants.

Funds administered, managed and invested by PAN Fund as the financial trustee corporation of the PAN include:

- Green Fees from ROP which are used for general operations of the PAN. PAN Fund allocates five percent (5%) of Green Fees and any unallocated funds remaining at the end of each fiscal year in the Micronesia Conservation Trust (MCT) Endowment, net investment revenues from which are available for PAN Fund's exclusive use at a later time, pursuant to guidelines of MCT. PAN Fund considers its ensuing year budget to be an allocation of funds and therefore has not recorded a liability to MCT for any unallocated funds at September 30, 2021 and 2020;
- Donations, grants and other aid given to PAN Fund; and
- Income and other property derived from or attributed to the investment or application of property.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2021 and 2020

(1) Organization, Continued

PAN Fund disburses all funding for:

- The implementation of PAN management, sustainable development and work plans for PAN sites based on performance, impact/outcome and appropriate management costs for the continuing sustainable operation of the PAN Fund. During the years ended September 30, 2021 and 2020, PAN Fund provided funding to PAN sites/states for mobilization and implementation of PAN work plan of \$879,529 and \$1,282,544, respectively, and is recorded as PAN sites/states expense in the accompanying statements of revenue, expenses and changes in net position. Additionally, PAN Fund provided technical assistance for PAN sites/states special projects of \$21,830 and \$96,225 for the years ended September 30, 2021 and 2020, respectively.
- The undertaking of necessary research and educational activities substantially related to carrying out the provisions of RPPL No. 7-42;
- The performance of any other functions that is necessary in order to carry out the purposes of RPPL No. 7-42 including the operation of the PAN Office. The PAN Office operates under the ROP Ministry of Natural Resources, Environment and Tourism. During the years ended September 30, 2021 and 2020, PAN Fund provided funding for activities specified in an annual work plan of PAN Office in the amounts of \$81,246 and \$185,889, respectively; and
- Emergency funding to help PAN sites address exceptional needs arising from natural disasters or accidents.

PAN Fund's financial statements are incorporated into the financial statements of ROP as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of PAN Fund conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. PAN Fund 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.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources, measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included in the statements of net position. Proprietary fund operating statements reflect increases and decreases in net total assets and utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Budget and Appropriation

RPPL 9-15 authorized funds generated from the collection of the Green Fee to be authorized and appropriated for the sole purpose of the operation of the PAN, to be transferred to PAN Fund. No more than ten percent (10%) of such funds may be used for administrative costs of the operation of the PAN. PAN Fund has determined that the 10% restriction applies only to the PAN and not PAN Fund. Budgetary financial statements are not considered to be a disclosure requirement by management.

Cash

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash in bank. As of September 30, 2021 and 2020, cash was \$1,234,208 and \$1,561,154, respectively, and the corresponding bank balances were \$1,251,214 and \$1,662,686, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2021 and 2020, bank deposits of \$250,000 were FDIC insured. Collateralization of deposits is not required; therefore, uninsured deposits are exposed to custodial credit risk.

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

Investments

PAN Fund's investment policy governs the investment of assets of PAN Fund as follows:

- (1) General
 - (A) Any restrictions set forth by applicable law governing allocation limits, size, or quality of investments, if more stringent than those of this Statement, will be the governing restriction.
 - (B) U.S. and Non-U.S. common stocks, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.
 - (C) No individual security of any issuer, other than that of the US Government, shall constitute more than 10% (at cost) of any Investment Managers portfolio.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

(1) General, Continued

- (D) The following securities and transactions are not authorized without prior Board approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; short sales; margin transactions; and, options and futures.

(2) Cash & Equivalents

- (A) The following investments are permitted:

- U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations.
- Commercial Paper - All commercial paper issuers must maintain an "A-1" rating by Standard & Poor's and a "P-1" rating by Moody's Investor Service and be issued by Corporations domiciled within the United States having total assets in excess of one billion dollars (\$1,000,000,000).
- Certificates of Deposit - All certificate of deposit issuers must have a minimum capital of ten million dollars (\$10,000,000).

For assets managed by Investment Committee - From time to time Investment Committee may choose to invest working capital and pending loan funds in certificates of deposit offered by minority and/or community financial institutions. These financial institutions may not meet the minimum capital requirements set forth above.

- Repurchase Agreements - Repurchase agreements must be collateralized with either: (1) U.S. Treasury or Agency Securities with a market value of 102%, marked to market daily; or, (2) money market instruments which meet the qualifications of the investment policy statement and with a market value of 102%, marked to market daily.
- Money Market Funds - Money Market Funds must be registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940.

- (B) No single issue shall have a maturity of greater than one (1) year.

- (C) Money market funds must have an average maturity of less than one (1) year.

(3) Fixed Income

- (A) All fixed income securities held in the portfolio shall have a Moody's or Standard & Poor's credit quality rating of no less than "BBB". U.S. Treasury and Agency securities, while non-rated, qualify for inclusion in the portfolio.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

(3) Fixed Income, Continued

- (B) Total portfolio quality (capitalization weighted) shall maintain an "A" minimum rating.
- (C) It is the policy of the Board to place assets in Local Certificates of Deposit (Local CDs) issued by local Funding institutions, with the express purpose of making funds available to the local community in the form of loans. These Local CDs will not be included in the strategic asset allocation included herein. However, these Local CDs and the local Funding institutions must meet the following criteria on an ongoing basis:
 - Local CDs must offer a competitive return relative to alternative issuers.
 - The local Funding institutions must provide quarterly financial statements for Investment Committee review. The Investment Committee is charged with monitoring the financial health of the local Funding institutions. Should concerns arise with respect to the financial condition of the local Funding institutions, the Investment Committee will immediately notify the Board so that appropriate action can be determined and taken.

(4) Equities

- (A) Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive. Comparisons to peer group characteristics will be used to evaluate and to assure consistency of each managers stated strategy and style.
- (B) Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on major exchanges.
- (C) The Investment Managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the Investment Managers will be evaluated against their peers on the performance of the total funds under their direct management.
- (D) Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any state, district, territory, or of any foreign country (ADR only) are permissible investments.

GASB Statement No. 40 requires entities to provide information about the credit risk associated with their investments by disclosing the credit quality ratings.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, PAN Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. PAN Fund's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in PAN Fund's name by PAN Fund's custodial financial institutions at September 30, 2021.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The following is a listing of PAN Fund's fixed income securities at September 30, 2021 and 2020:

| Investment Type | Fair Value | 2021 Investment Maturities (In Years) | | | | Ratings |
|---------------------|-------------------|--|-------------------|-------------------|------------------|---------|
| | | Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 | |
| U.S. Treasury notes | \$ 192,728 | \$ - | \$ 93,541 | \$ 99,187 | \$ - | Aac |
| U.S. Treasury bonds | 42,387 | - | - | 21,302 | 21,085 | Aaa |
| Corporate bonds | 58,391 | - | 13,726 | 29,408 | 15,257 | A1 |
| Corporate bonds | 29,473 | - | - | 14,278 | 15,195 | A2 |
| Corporate bonds | 13,996 | - | - | 13,996 | - | A3 |
| Corporate bonds | 28,611 | - | - | 14,617 | 13,994 | Baa1 |
| Corporate bonds | 110,650 | - | - | 110,650 | - | Baa2 |
| Corporate bonds | 15,395 | - | - | - | 15,395 | Aaa |
| | <u>\$ 491,631</u> | <u>\$ -</u> | <u>\$ 107,267</u> | <u>\$ 303,438</u> | <u>\$ 80,926</u> | |

| Investment Type | Fair Value | 2020 Investment Maturities (In Years) | | | | Ratings |
|-----------------------------------|-------------------|--|-------------------|-------------------|------------------|---------|
| | | Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 | |
| U.S. Treasury notes | \$ 170,543 | \$ - | \$ 81,848 | \$ 88,695 | \$ - | Aaa |
| U.S. Treasury bonds | 49,803 | - | - | - | 49,803 | Aaa |
| Other U.S. government obligations | 37,723 | - | 37,723 | - | - | Aaa |
| Corporate bonds | 14,641 | - | - | - | 14,641 | Aaa |
| Corporate bonds | 43,182 | - | - | 43,182 | - | A2 |
| Corporate bonds | 42,930 | - | - | 42,930 | - | A3 |
| Corporate bonds | 29,861 | - | - | 15,202 | 14,659 | Baa1 |
| Corporate bonds | 72,076 | - | - | 72,076 | - | Baa2 |
| Corporate bonds | 14,019 | - | - | 14,019 | - | Baa3 |
| | <u>\$ 474,778</u> | <u>\$ -</u> | <u>\$ 119,571</u> | <u>\$ 276,104</u> | <u>\$ 79,103</u> | |

Fair Value Measurement of the Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

PAN Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. PAN Fund has the following fair value measurements:

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Fair Value Measurement of the Investments, Continued

| | Total | 2021 | | |
|---|---------------------|------------------------------|-------------------|-------------|
| | | Fair Value Measurement Using | | |
| | | Level 1 | Level 2 | Level 3 |
| Investments by fair value level | | | | |
| Debt securities: | | | | |
| U.S. Treasury securities | \$ 235,115 | \$ 235,115 | \$ - | \$ - |
| Other U.S. Government obligations | | | | |
| Corporate bonds | 256,516 | - | 256,516 | - |
| Equity securities: | | | | |
| Common stock | <u>1,255,154</u> | <u>1,255,154</u> | - | - |
| Total investments by fair value level | \$ <u>1,746,154</u> | \$ <u>1,490,269</u> | \$ <u>256,516</u> | \$ <u>-</u> |
| Investments measured at cost-based measure: | | | | |
| Money market funds | \$ <u>112,375</u> | | | |

| | Total | 2020 | | |
|---|---------------------|------------------------------|-------------------|-------------|
| | | Fair Value Measurement Using | | |
| | | Level 1 | Level 2 | Level 3 |
| Investments by fair value level | | | | |
| Debt securities: | | | | |
| U.S. Treasury securities | \$ 220,346 | \$ 220,346 | \$ - | \$ - |
| Other U.S. Government obligations | 37,723 | - | 37,723 | - |
| Corporate bonds | 216,709 | - | 216,709 | - |
| Equity securities: | | | | |
| Common stock | <u>961,178</u> | <u>961,178</u> | - | - |
| Total investments by fair value level | \$ <u>1,435,956</u> | \$ <u>1,181,524</u> | \$ <u>254,432</u> | \$ <u>-</u> |
| Investments measured at cost-based measure: | | | | |
| Money market funds | \$ <u>109,650</u> | | | |

Capital Assets

Capital assets are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. Current policy is to capitalize items in excess of \$1,000.

Retirement Plan

On October 5, 2017, PAN Fund adopted a 401K Retirement Savings Plan (the Plan) to provide an individual account retirement system for the employees of PAN Fund. PAN Fund's General Manager is responsible for the general administration and operation of the Plan. Each member of the Plan is required to contribute to the members' individual account an amount equal to 4% of the member's gross salary. On February 26, 2019, the contribution rate increased to 6% of the member's gross salary. PAN Fund is required to provide matching contributions on behalf of each member equal to the employees' contributions. PAN Fund recorded \$7,038 and \$5,470 of contributions to the Plan for the years ended September 30, 2021 and 2020, respectively. Total plan assets at September 30, 2021 were \$44,420.

On August 8, 2013, PAN Fund withdrew from the Palau Civil Service Pension Trust Fund (the Fund) as the Fund considers PAN Fund to be a non-profit, non-governmental organization, and to be exempt from participation in the Fund.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Net Position

PAN Fund's net position is classified as follows:

- Net investment in capital assets: capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Restricted: net position subject to externally imposed stipulations that can be fulfilled by actions of PAN Fund pursuant to those stipulations or that expire by the passage of time. PAN Fund considers all assets, except investments in capital assets, to be restricted in accordance with the provisions of RPPL 7-42.
- Unrestricted: net position that is not subject to externally imposed stipulations. As PAN Fund considers all assets, except investments in capital assets, to be restricted in accordance with the provisions of RPPL 7-42, PAN Fund does not have unrestricted net position at September 30, 2021 and 2020.

New Accounting Standards

In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed the effective dates of GASB Statement No.'s 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.

During the year ended September 30, 2021, PAN Fund 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 Statements No. 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 ended September 30, 2022.

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

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

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

In January 2020, GASB issued Statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefits. The requirements related 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. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

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

In October 2021, GASB issued Statement No. 98, The Annual Comprehensive Financial Report. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 98 will be effective for fiscal year ending September 30, 2022.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2021 and 2020

(3) Capital Assets

Capital assets of PAN Fund as of September 30, 2021 and 2020, are summarized below:

| | <u>Estimated Useful Lives</u> | <u>Balance at October 1, 2020</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at September 30, 2021</u> |
|-----------------------------------|-------------------------------|-----------------------------------|------------------|------------------|--------------------------------------|
| Furniture, fixtures and equipment | 3 years | \$ 20,694 | \$ - | \$ - | \$ 20,694 |
| Vehicle | 3 years | <u>7,000</u> | <u>-</u> | <u>-</u> | <u>7,000</u> |
| | | 27,694 | | | 27,694 |
| Less accumulated depreciation | | <u>(21,222)</u> | <u>(204)</u> | <u>-</u> | <u>(21,426)</u> |
| | | \$ <u>6,472</u> | \$ <u>(204)</u> | \$ <u>-</u> | \$ <u>6,268</u> |
| | <u>Estimated Useful Lives</u> | <u>Balance at October 1, 2019</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at September 30, 2020</u> |
| Furniture, fixtures and equipment | 3 years | \$ 20,694 | \$ - | \$ - | \$ 20,694 |
| Vehicle | 3 years | <u>7,000</u> | <u>-</u> | <u>-</u> | <u>7,000</u> |
| | | 27,694 | - | - | 27,694 |
| Less accumulated depreciation | | <u>(20,823)</u> | <u>(399)</u> | <u>-</u> | <u>(21,222)</u> |
| | | \$ <u>6,871</u> | \$ <u>(399)</u> | \$ <u>-</u> | \$ <u>6,472</u> |

(4) Contributions

The Micronesia Challenge (MC) is a commitment by the Chief Executives of the Republic of Palau, the Federated States of Micronesia (FSM), the Republic of the Marshall Islands, the U.S. Territory of Guam and the U.S. Commonwealth of the Northern Mariana Islands to effectively conserve at least 30% of the near-shore marine resources and 20% of the terrestrial resources across Micronesia by 2020.

MCT is a non-profit trust corporation registered in the FSM whose mission is to support biodiversity conservation and related sustainable development of the people of Micronesia by providing long-term sustained funding opportunities, management and investment services. MCT holds MC assets in restricted endowment funds. During the years ended September 30, 2021, 2020, 2019, 2018, 2017, 2016, 2015, 2014, 2013 and 2012, PAN Fund contributed \$43,188, \$32,549, \$71,762, \$76,425, \$97,750, \$100,000, \$98,177, \$96,750, \$84,596 and \$1,400,000, respectively, to the MC endowment funds held by MCT.

In previous years, ROP, The Nature Conservancy, Global Environmental Facility and Conservation International made contributions to MCT of \$400,000, \$2,000,000, \$1,684,848 and \$1,000,000, respectively, on Palau's behalf. During the years ended September 30, 2021 and 2020, PAN Fund withdrew investment income of \$507,276 and \$495,357, respectively, from MCT. The investment income from MCT represents 5% of a three-year moving average of PAN Fund's average MCT endowment fund balance. At September 30, 2021 and 2020, the Palau portion of MC endowment funds held by MCT was \$11,364,955 and \$9,836,694, respectively.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2021 and 2020

(5) Commitment

PAN Fund leases office space in Koror, Palau. The term of the lease is one year commencing October 1, 2021 and expiring on September 30, 2022. Total future minimum lease payments under this lease for the subsequent year ending September 30, 2022 is \$36,000. The Pan Fund expects to vacate the premises and move to a new location. However, the associated commitment is unclear at this time.

(6) COVID-19 Pandemic

Due to travel restrictions and COVID-19 pandemic entry requirements, there is considerable uncertainty of the impact and duration of the effects of the pandemic, which will inevitably affect collection of Green Fees. Therefore, PAN Fund expects this matter to negatively impact its financial results; however, the related financial impact cannot be reasonably estimated at this time. Other financial impacts could occur though such potential impact is unknown.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Protected Areas Network Fund:

We have audited, 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, the financial statements of the Protected Areas Network Fund (PAN Fund), which comprise the statement of net position as of September 30, 2021, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated November 10, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PAN Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PAN Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of PAN Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of PAN Fund's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PAN Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

November 10, 2022