Financial Statements, Required Supplementary Information, Supplementary Information and Internal Control

Palau Public Utilities Corporation

(A Component Unit of the Republic of Palau)

Year ended September 30, 2022
with Report of Independent Auditors

Building a better working world

Palau Public Utilities Corporation
(A Component Unit of the Republic of Palau)

Financial Statements, Required Supplementary Information and Supplemental Information

Year ended September 30, 2022

Contents

Ernst & Young (CNMI), Inc.
Island Mart Building
2nd Floor, Iyebukl
P.O. Box 1016
Koror, Palau 96940

Tel: 680 488 2705
Fax: 680 488 3391
ey.com

Report of Independent Auditors

Board of Directors
Palau Public Utilities Corporation:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Palau Public Utilities Corporation (the Corporation), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Palau Public Utilities Corporation as of September 30, 2022, and the changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 33, the Schedule of Proportionate Share of the Net Pension Liability on page 65, and Schedule of Pension Contributions on page 66 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The supplementary information on pages 67 through 72 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Corporation's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statement as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2025, on our consideration of the Corporation 's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation 's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Ernst + Young

April 8, 2025

The Management's Discussion and Analysis (MD&A) presents the Palau Public Utilities Corporation's financial performance during the fiscal year ended September 30, 2022. The discussion and analysis provide 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, 2022, 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. 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.

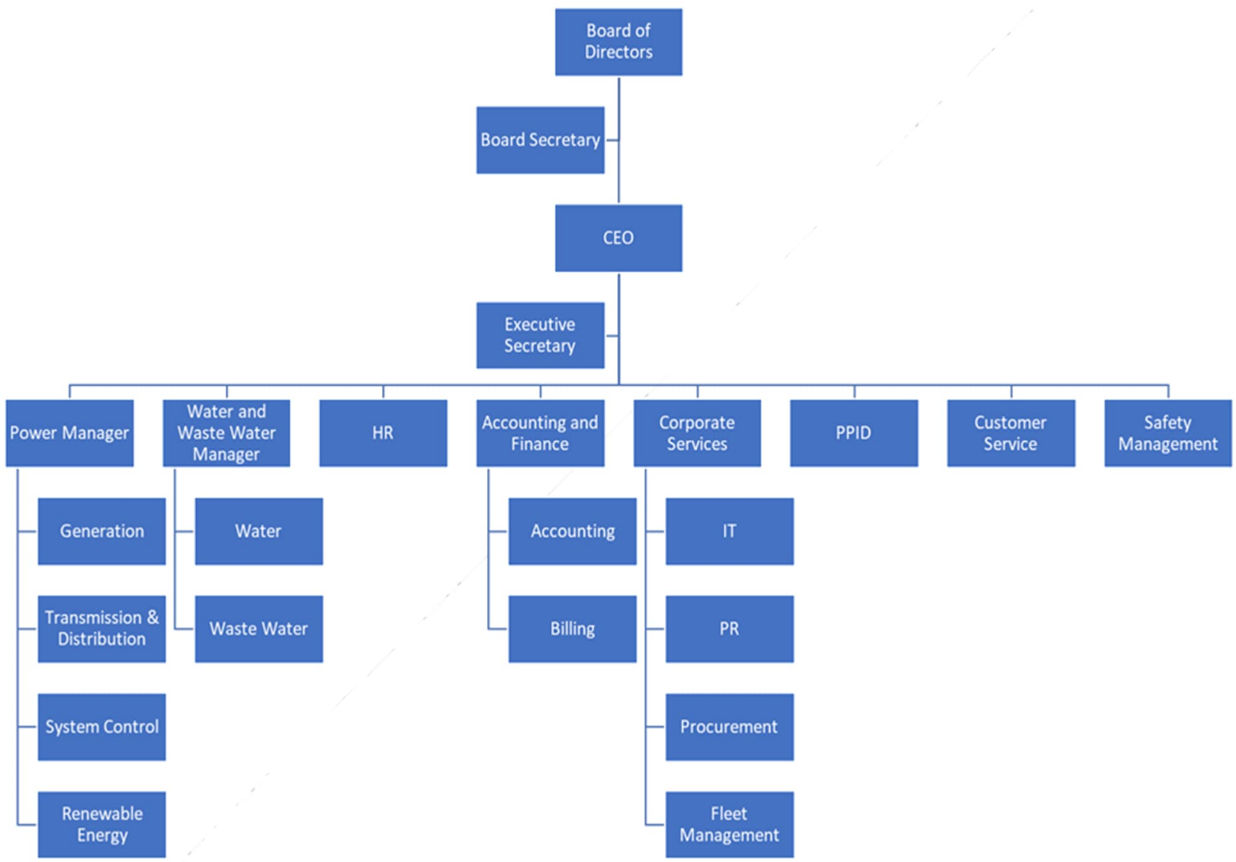
After the merger, about 112 employees from the National Government's water and wastewater operation transitioned to the new PPUC. From an Electrical utility with 149 employees, PPUC expanded to a total workforce of over 289 employees as of to date, delivering both electricity and water/wastewater operations 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.

COMPANY OVERVIEW, continued

An organizational chart was created and adopted by the Board of Directors. The organizational chart has been modified and improved over time to reflect 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.

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 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 (2022) fiscal year's revenues, and expenses; measures the success of the Corporation's operations compared to the prior fiscal year; and shows the extent in 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 Flow 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 through-out 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.

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
	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
	Cummins 3	275 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
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

ELECTRIC POWER OPERATIONS, continued

Major projects for Electric Power Operations (EPO) as of FY 2022 are the following:

- Modification of the Niigata control system

  This project was financed by the ADB-PBL Subprogram 1 amounting to 2.5 million. This project is expected to start in FY 2023.

- Niigata Major Overhaul in Malakal Power Plant

  The Niigata major overhaul was done every 16,000 hours. However, due to pandemic, this had been deferred for almost two (2 years). The last major overhaul of the Niigata 14 and 15 was in FY 2019.

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).

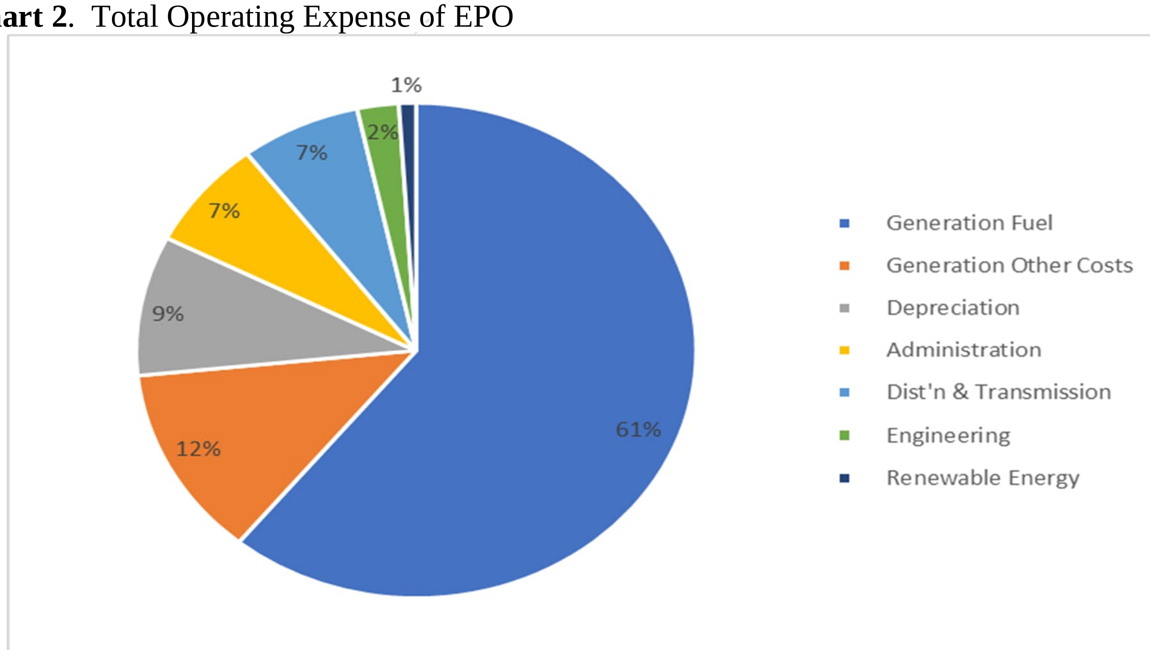
These are certain measures PPUC has undertaken and continues to develop and implement in order to reduce fuel expenses. As a matter of fact, the procurement, engineering and construction for a Solar Photovoltaic (PV) Independent Power Producer (IPP) is on-going and expected to materialize by December 2023. This will 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. PPUC anticipates a reduction in the overall fuel consumption for power generation and will confirm once the system is fully operational and integrated into daily operations. However, it is important to note that it is expected that significant human resources, capacity development, and energy efficiency will be needed in order to transition to green and clean energy and to save costs.

ELECTRIC POWER OPERATIONS, continued

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. However, PPUC was later informed that these areas will be covered by the JICA upgrade, thus transition the plan and do Aira to Kesabelau instead. Another major project by the Transmission and Distribution Department is the relocation of nineteen (19) power poles from old access road to the compact road for easy assessment and troubleshooting of the transmission lines. One pending systems upgrade is the static line from Aimeliik Power Plant to Aira Substation. This is expected to be completed by FY 2023 to FY 2024. 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, including upgrade to prepaid meters and software. PPUC is required to update a numerical key in all prepaid meters and should be done before November 2024. This is called the Token Identification (TID) roll-over. The TID roll-over will allow the customer to continue using the prepaid meters beyond November 2024. The team scheduled the TID roll-over by FY 2023. 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 charts below show the ratio of the total operating expenses of the EPO for FY 2022 and Generation/System losses of PPUC from FY 2017 to FY 2022.

Chart 2. Total Operating Expense of EPO



ELECTRIC POWER OPERATIONS, continued

It shows that almost 61% of the operating expenses is diesel generation fuel.

Chart 3. System losses of PPUC from FY 2017 to FY 2022

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 US dollars (USD) 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 USD 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 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 conventional metered customers 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 $5,000,000, $3,700,000 for EPO and $1,300,000 for WWO. On July 30, 2021, a subsidiary loan agreement was executed between PPUC and MOF with the funds (first tranche of $5,000,000 million) received by PPUC on September 2021. The contract for the Niigata modification has been signed in May 2022 and this is expected to be completed by September 2023.

ELECTRIC POWER OPERATIONS, continued

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 PEA, and 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, RPPL10-23 and applicable PEA Regulations. The new base tariff took effect on June 1, 2021.

The effect of pandemic in the global market was the reduction of fuel prices by almost 30%-40% in FY 2020. However, in later months of FY 2021 economy was recovering from covid, inflation was projected at 4.7% but due to war in Ukraine, fuel and other commodities have increased rapidly and inflation was projected at 8.6% in 2022; based on the IMF report (imf.org/external/datamapper/PCPIPCH@WEO/WEOWORLD). The impact is an increase of 75% in fuel prices in FY 2022 compared to FY 2020 during pandemic. This resulted to a higher fuel expense and AFPAC. Due to the sudden increase of AFPAC in October – December 2021 by almost $14.3 cents, ROP appropriated a $2.550 million subsidy to customer's bill, as per RPPL 11-18 Section 33.a.

The table below shows the new base tariff and the effective quarterly AFPAC in FY 2022.

Table 2: EPO (Base) Tariff Schedule

Customer Class	KwH	Base 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 3: Effective quarterly AFPAC

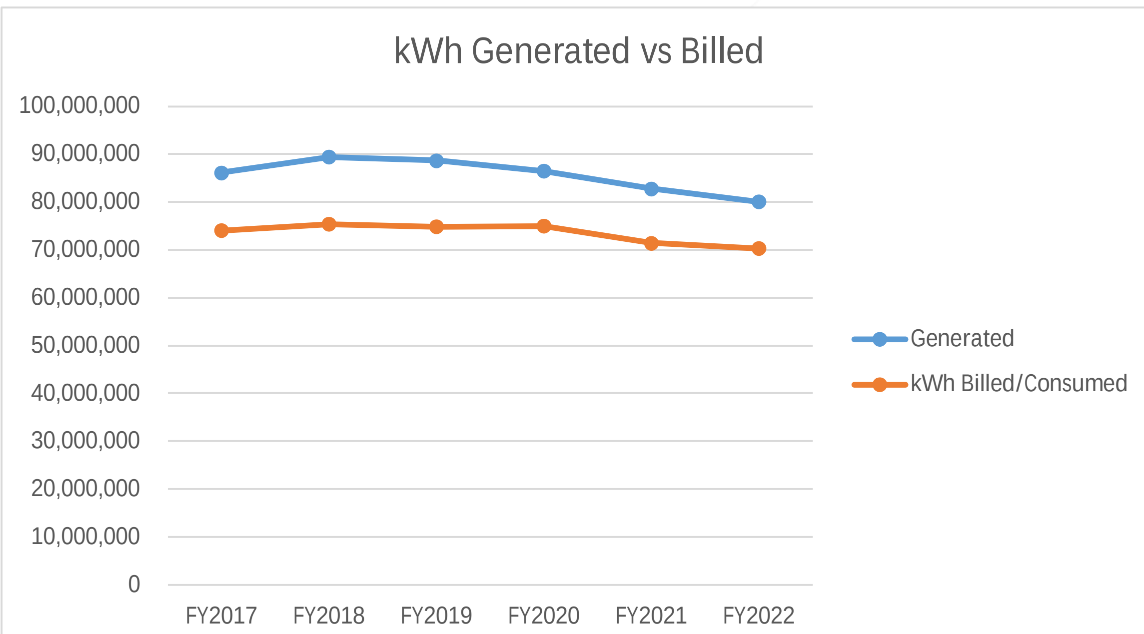
FY 2022 Per Quarter	Fuel Rate
1st QTR (October-December 2021)	$.150 /kWh
2nd QTR (January-March 2022)	$.224 /kWh
3rd QTR (April-June 2022)	$.290 /kWh
4th QTR (July-September 2022)	$.334 /kWh

ELECTRIC POWER OPERATIONS, continued

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

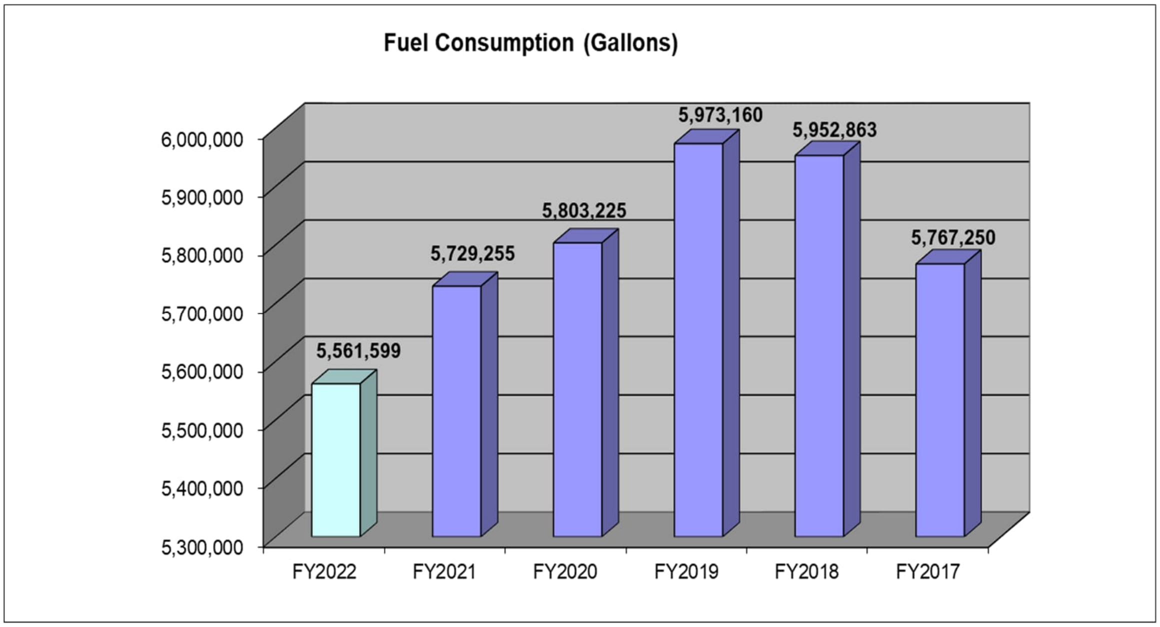
Table 4. Kilowatt Hour (kWh) Generated vs kWh Billed vs Fuel Consumption

kWh	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Generated	86,115,514	89,429,875	88,615,682	86,411,882	82,770,073	80,103,005
kWh Billed	74,032,703	75,429,455	74,824,795	74,965,127	71,389,139	69,335,745
Fuel Consumption	5,767,248	5,952,863	5,973,160	5,803,225	5,729,255	5,561,599
% Inc/(Dec) in Generation	0.46%	3.85%	-0.91%	-2.49%	-4.21%	-3.22%
% Inc/(Dec) in Billing	4.38%	1.89%	-0.80%	0.19%	-4.77%	-2.88%
% Inc/(Dec) in Fuel Consumption	-0.02%	3.22%	0.34%	-2.84%	-1.27%	-2.93%



ELECTRIC POWER OPERATIONS, continued

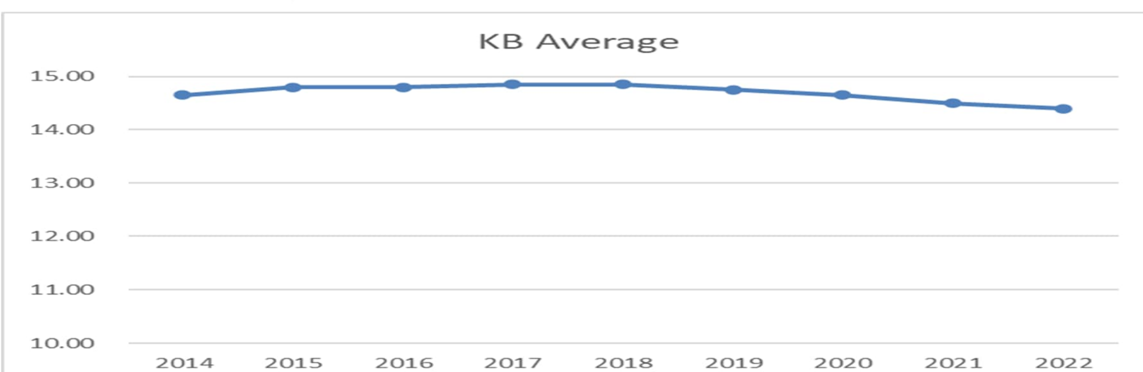
Chart 4: Fuel Consumption



kWh generated, kWh billed, and fuel consumption all decreased by 3.22%, 2.88% and 2.93% respectively. Since the pandemic, some hotels continue to close and no operations by FY 2022, and many residents and expats had left Palau which resulted to unoccupied apartment units, thus the decrease in consumption.

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

Chart 5: Average Fuel Efficiency for Koror-Babeldaob and Outlying States



ELECTRIC POWER OPERATIONS, continued

Chart 5: Average Fuel Efficiency for Koror-Babeldaob and Outlying States, continued

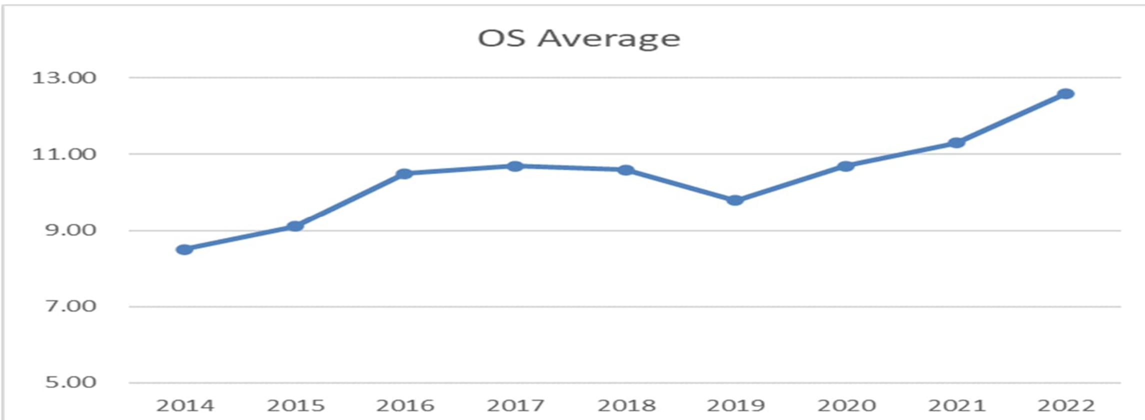
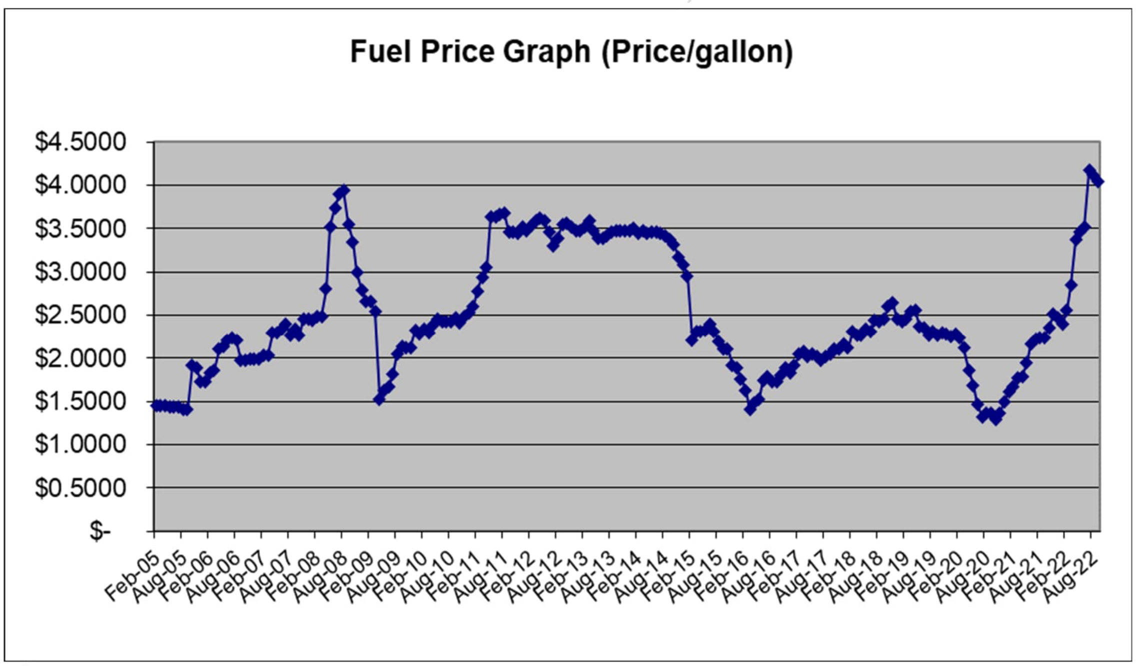


Chart 6: Fuel Price



The fuel efficiency begins to rise up in FY 2016 and FY 2018 but begins to deflate in FY 2019 to FY 2022. Palau's SFC (Specific Fuel Consumption) benchmark is at 14.5 kWh/gal. Notice the changes in fuel prices, it rises and fall so rapidly. It started to fall in FY 2016 and begun to rise up again until early quarters of FY 2019, however, it started to decline in FY 2020 and gradually rising up in FY 2021. Based on the world's fuel market, fuel price had decline by almost 50% in the 3rd quarter of FY 2020 and still continued to drop up to December 2020. It began to increase

ELECTRIC POWER OPERATIONS, continued

again by January 2021 and continued to increase up to September 2022. This rapid decline in the cost of fuel is due to the increasing cases of COVID-19 which had led to closing of borders among countries, no flights and banned international travels. Now fuel price had gone up really high. In September 2021 fuel price (including shipping price) of PPUC's generation fuel purchases, increased by 64% compared to September 2020 and 75% in September 2022 compared to September 2021. Average increase during pandemic in FY 2020 to FY 2022 is 75%. This had impacted the economy globally and had been a great challenge among nations especially in the fuel and tourism industry. This increase in the fuel prices by 3rd quarter of FY 2021 and the continued increase up to FY 2022 resulted to the increase in the AFPAC in FY 2022. The prior quarter recovery base on the AFPAC methodology is a 6-month period.

EPO Financial Highlights

Table 5: EPO Statements of Revenues, Expenses and Changes in Net Position

ELECTRIC POWER OPERATIONS	SEPT. 30, 2022	SEPT. 30, 2021	INC/(DEC) 2022
Revenues, Expenses, and Changes in Net Position			
Operating Revenues			
Electric	$26,913	$15,414	$11,499
Others	1,585	1,012	573
Provision for Bad Debts	(176)	(83)	(93)
Total Revenue	28,322	16,343	11,979
Operating Expenses			
Generation Fuel	17,808	10,736	7,072
Generation Other Costs	3,640	1,895	1,745
Depreciation	2,675	2,903	(228)
Administration	2,087	1,927	160
Distribution & Transmission	2,030	2,079	(49)
Engineering	702	906	(204)
Renewable Energy	290	223	67
Total Operating Expenses	29,232	20,669	8,563
Non-Operating Revenue/(Expenses)	2,418	(386)	2,804
Change in Net Position	1,508	(4,712)	6,220
Beginning Net Position	29,109	33,821	(4,712)
Ending Net Position	$30,617	$29,109	$ 1,508

EPO Financial Highlights, continued

Operating revenue increased by 73%. Factor that contributed to this increase is the higher AFPAC compared to FY 2021. Although fuel consumption decreased by 2.93%, fuel price increased by an average of 74% as shown in chart 3 and 5, thus the increase in generation fuel expense by 66%. Other generation cost increased by 92% due to Niigata major overhaul. The increase in fuel costs and Niigata major overhaul caused the increase in overall expenses by 41%. The overall financial performance of Electric Power Operations resulted to a net income of $1.5million in FY 2022.

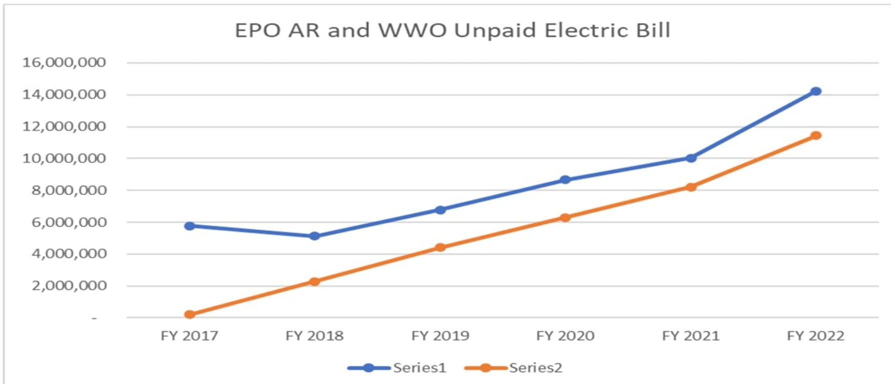
Table 6: EPO Statements of Net Position

ELECTRIC POWER OPERATIONS	SEPT. 30, 2022	SEPT. 30, 2021	INC/(DEC) 2022
Statement of Net Position			
Current Assets	$38,696	$28,010	$10,686
Other Assets	720	146	574
Net Utility Plant	24,754	27,065	(2,311)
Total Assets	64,170	55,221	8,949
Deferred Outflows from Pension	6,132	5,706	426
Total	$70,302	$60,927	$ 9,375
Current Liabilities	$13,932	$ 8,367	$ 5,565
Other Liabilities	6,000	5,500	500
Net Pension Liability	16,087	16,252	(165)
Total Liabilities	36,019	30,119	5,900
Deferred Inflows from Pension	3,665	1,699	1,966
Total	$39,684	$31,818	$ 7,866
Invested in Capital Assets	23,890	26,009	(2,119)
Unrestricted	6,728	3,100	3,628
Total Net Position	$30,618	$29,109	$ 1,509

Cash increased by 63% due to the ADB-PBL Tranche 2 proceeds amounting to $4.1 million intended for WWO. It was deposited in EPO's checking account in September 2022 and was transferred to WWO account in October 2022, covering FY 2023. Thus, should not be considered in assessing performance for EPO. Accounts Receivable increased by 40%. The $11.4 million in the accounts receivable is WWO's unpaid electric billings. Since September 2017, WWO has not been able to pay its electric bill, bloating up the accounts receivable of the electric operations and impacting EPO's cash flow.

EPO Financial Highlights, continued

Chart 7: EPO Accounts Receivable and WWO Electric Bill



Accounts Receivable of EPO increased by 40%, part of this is the electric bill of WWO that was 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, Ngerkesoaol, Ngerkebesang, and Malakal.

WATER AND WASTEWATER OPERATIONS, continued

The **Table 7** below shows the water tanks and their area of coverage:

Water Storage Tanks	Capacity	Coverage
Airai	1M gallons	Whole state of Airai from Ordomel, Ngetkib to KB Bridge Airai side, Ochelochel
Ngermid	1M gallons	Ngesaol, Ngermid, Ngerias, Ngerbodel, Ngerchemai, and Iyebukel
Ngerekesoal	1M gallons	Ngerekesoal, 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

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 rate 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. However, outlying states, Babeldaob and Ioueldaob are still being charged with the 2011 water rates until the water quality is improved.

WATER AND WASTEWATER OPERATIONS, continued

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. Part of Subprogram 1 amounting to $1.3 million was used to improve KAWTP. These include: 1.) Improvement of chemical feeder, building equipment, and flocculator; 2.) Repair and repaint of steel sand filter tank and improvement of seven (7) sludges drying bed. Subprogram 2 amounting to $4.1 million will improve WWO's treatment, distribution facilities, and improvement of some parts of outlying states. Amongst the revenue enhancement plan for the Subprogram 2 are: 1.) Replacement of 10,000 ft of 100mm local pipes in Ngerekesoal; 2.) Replacement of 12 water pumps in Ngerikiil and KAWTP; 3.) Improvement of pump stations and reservoirs at Ollei, Mengellang, and Ibobang. All of these are scheduled to start by FY 2023. If quality of water is improving, PPUC now can charge the actual tariff in parts of Babeldaob, Ioueldaob and Outlying States.

On August 18, 2021, the Board approved the following policy actions as requirement in the ADB-PBL Subprogram 2: Board Nomination Procedures; Sustainable Debt Management Procedures; Business Analytical Tool; Capacity Development Procedures and Statement of Corporate Intent. WWO Tariff Model, Tariff Petition and Revenue Enhancement Plan were approved by the Board on January 27, 2022 and submitted to Palau Energy and Water Administration (PEWA) on April 7, 2022. We are expecting the new WWO tariff to be approved and implemented by FY 2023. This will improve the revenue and operations of the WWO.

The subprogram 1 that cover various improvements in KAWTP had started the work in FY 2022 and was expected to be completed in FY 2023. In August 2022, MOF and ADB executed the loan agreement for the Subprogram 2 and PPUC and MOF signed the subsidiary loan agreement in September 2022. The proceeds of $5.0 million was released in September 26, 2022. $4.1 million of this goes to WWO and $900k goes to EPO as payment for the returnable subsidy previously granted by ROP.

WATER AND WASTEWATER OPERATIONS, continued

Table 8. Below shows the WWO tariff effective January 31, 2021

KOROR-AIRAI Water & Sewer Rates

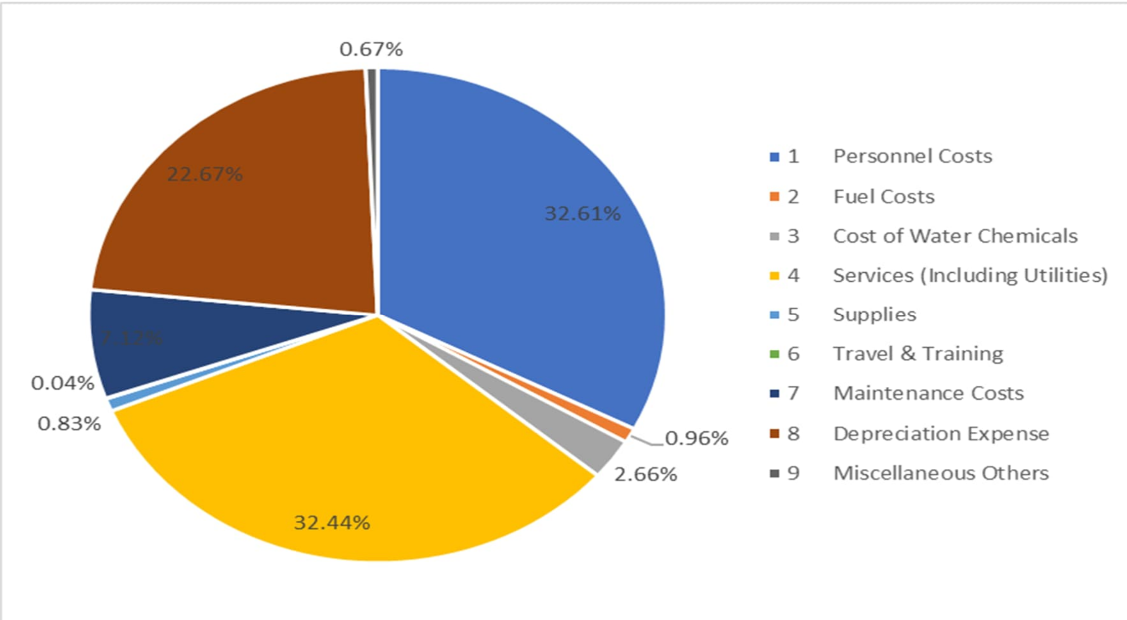
Residential Rates

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 & IOUELDAOB		
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 & Youldaob 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

WATER AND WASTEWATER OPERATIONS, continued

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

Chart 8: Operating Expenses of WWO



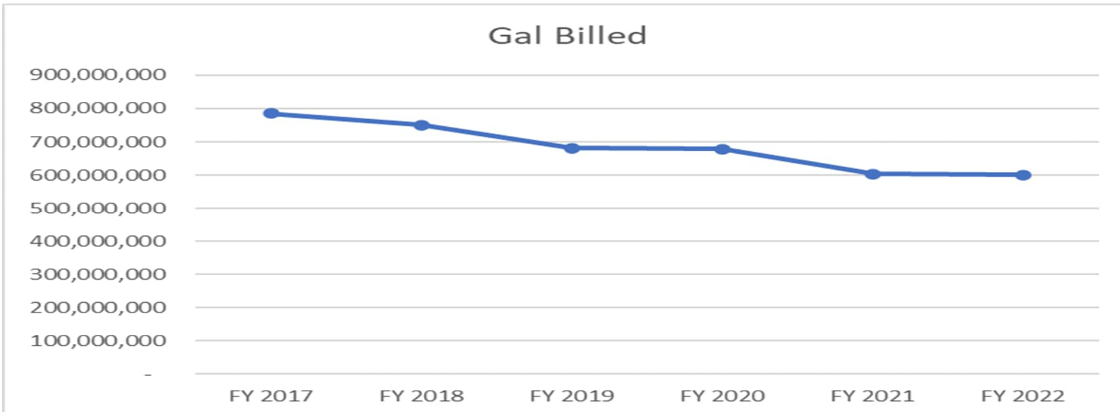
The chart shows that the largest percentage of expenses goes to personnel, depreciation and services. Services include utility expenses. WWO's power consumption is approximately $3 million this FY 2022 because of the higher AFPAC. As discussed in EPO's financial highlights, WWO's inability to pay its power consumption has dramatically increased its accounts payable to $11.4 million and thus affecting EPO's cash requirement in covering its operating expenses.

Table 9: Gallons Billed and No. of Customers

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Gal Billed	785,204,306	750,838,283	681,143,602	678,084,623	603,948,886	600,674,130
No. of Customer	4,671	4,765	4,848	5,045	5,119	5,182

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 reduced NRW to 37% by FY 2019. Based on the gallons billed, it had decreased by 9% from FY 2018 to FY 2019 as WWO have been constantly monitoring water leakages. The JICA had provided proper equipment and training for water leak detection. Currently, there is an on-going JICA project to reduce NRW that focuses on capacity building. Hopefully this will be completed by FY 2023.

WWO has been operating in the negative since the merger in FY 2013. It should be noted 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.

WATER AND WASTEWATER OPERATIONS, continued

The **Table 10** below shows the audited statements of revenues and expenses of WWO before capital contributions from FY 2013 to FY 2022.

WWO	**FY 2013 (Audited)**	**FY 2014 (Audited)**	**FY 2015 (Audited)**	**FY 2016 (Audited)**	**FY 2017 (Audited)**
Net Operating Revenues	$384,147	$2,255,543	$3,073,272	$4,487,362	$5,570,725
Operating Expenses	$2,382,702	$7,174,998	$6,857,707	$7,621,461	$7,493,938
Operating Loss	$(1,998,555)	$(4,919,455)	$(3,784,435)	$(3,134,099)	$(1,923,213)
Subsidies/Grants Received					
Operating Subsidies from ROP	2,672,734	1,700,000	3,419,045	2,266,993	
Donated Capital from the ROP		1,056,993	123,552	52,821	
Various Grants				467,398	
Capital Contributions from ROP				1,327,648	
Grants from Japan					10,318,720

WWO	**FY 2018 (Audited)**	**FY 2019 (Audited)**	**FY 2020 (Audited)**	**FY 2021 (Audited)**	**FY 2022 (Audited)**
Net Operating Revenues	$5,402,622	$5,107,150	$4,614,306	$4,225,623	$4,110,719
Operating Expenses	$9,006,505	$9,236,667	$9,287,587	$9,230,076	$10,835,290
Operating Loss	$(3,603,883)	$(4,129,517)	$(4,673,281)	$(5,004,453)	$(6,724,571)
Subsidies/Grants Received					
Operating Subsidies from ROP	1,695,000		1,600,000		26,220
Donated Capital from the ROP			166,980		
Various Grants	18,900	18,900	18,900	209,900	13,545
Capital Contributions from ROP	19,939	672,112			
Grants from Japan	5,173,965				

Significant improvements are needed to upgrade the systems' capacity to 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 2023. The $28 million was originally projected to cover both Koror and Airai. However, due to the change in prices of materials to be used in construction and budget constraints, it only covered the Koror area.

WWO Financial Highlights, continued

Table 11: WWO Statements of Revenues, Expenses and Changes in Net Position

WATER AND WASTEWATER OPERATIONS	SEPT. 30, 2022	SEPT. 30, 2021	INC/(DEC) 2022
Revenues, Expenses, and Changes in Net Position			
Operating Revenues			
Water and Wastewater	$ 3,807	$ 4,134	$(327)
Other	277	229	48
Recoveries (Bad debts)	26	(137)	163
Total Revenue	4,110	4,226	(116)
Operating Expenses			
Water and Wastewater	7,037	5,813	1,224
Depreciation	2,453	2,108	345
Administration	1,345	1,309	36
Total Operating Expenses	10,835	9,230	1,605
Non-Operating Revenue/(Expense)	(527)	(559)	32
Change in Net Position	(7,252)	(5,563)	(1,689)
Beginning Net Position	5,685	11,248	(5,563)
Ending Net Position	$(1,567)	$ 5,685	$(7,252)

Operating revenue decreased by 3% and gallons billed decreased by 0.5%. The WWO existing tariff is no longer enough to cover the operating expenses. Inflation is 8.6% as per IMF report (imf.org/external/datamapper/PCPIPCH@WEO/WEOWORLD). KASP loan repayment is expected to increase also due to increase in interest rate. ADB-KASP loan uses a Secured Overnight Financing Rate (SOFR) index for its interest. Thus, the approval of the new WWO tariff petition is necessary in order to keep the financial stability and solvency of the Water and Wastewater Operations and PPUC as a whole.

WWO Financial Highlights, continued

Table 12: WWO Statements of Net Position

WATER AND WASTEWATER OPERATIONS	SEPT. 30, 2022	SEPT. 30, 2021	INC/(DEC) 2022
Statement of Net Position			
Current assets	$ 7,311	$ 4,604	$2,707
Other assets	---	124	(124)
Net Utility Plant	41,470	43,050	(1,580)
Total assets	48,781	47,778	1,003
Deferred Outflows from Pension	3,145	3,904	(759)
	$ 51,296	$51,682	$ 244
Current Liabilities	$ 13,759	$10,909	$2,847
Other Liabilities	27,111	22,480	4,631
Net Pension Liability	10,276	11,445	(1,169)
Total Liabilities	51,143	44,834	6,309
Deferred Inflows from Pension	2,350	1,163	1,187
	$ 53,493	$45,997	$7,496
Invested in Capital Assets	17,152	19,232	(2,080)
Unrestricted	(18,719)	(13,547)	(5,172)
Total Net Position	$(1,567)	$ 5,685	$(7,252)

Cash decreased by 43% due to increase in expenses caused by the increase in interest of loan repayments, inflation and also decrease in gal billed. One factor that contributes to the reduction in gal billed is the outmigration of the residents and some workers during pandemic. Accounts Receivable (without the due from EPO tranche 2 proceeds) decreased by 4%. Current Liabilities increased by 26% due to additional current portion of KASP Loan and unpaid electric bill of WWO amounting to $11.4 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/Long-term debt increased by 21% due to the progress of KASP where liability is recorded upon disbursement of the costs of the project; and the ADB-PBL.

WWO Financial Highlights, continued

Chart 10. WWO Net Receivables without the eliminations

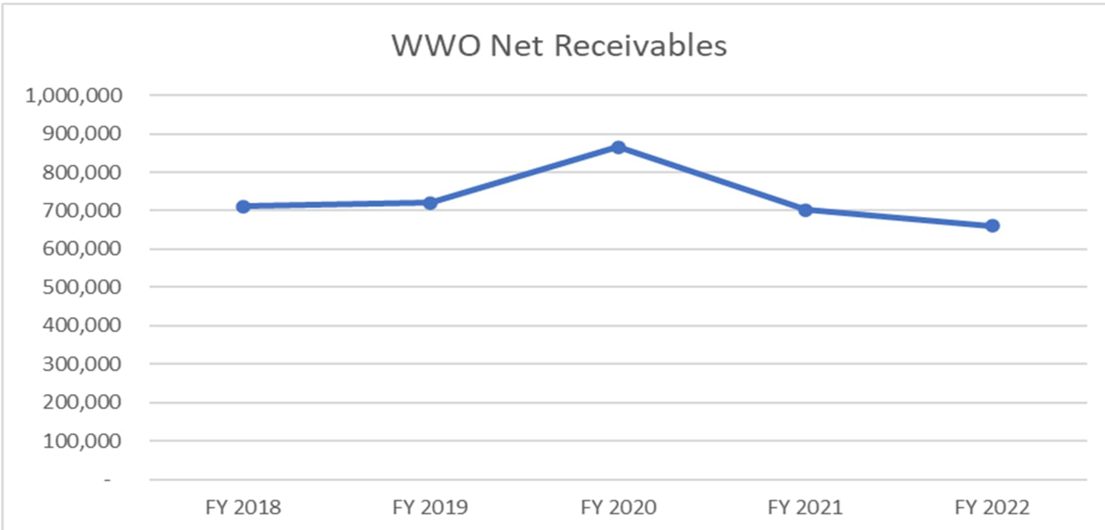
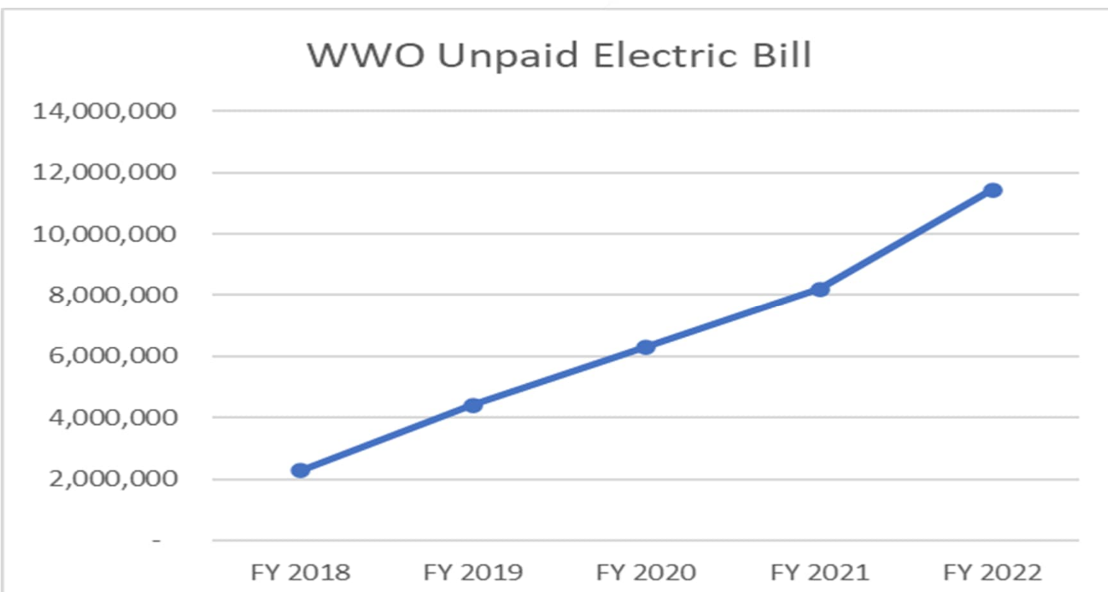


Chart 11: WWO Payables (Electric Bills)



CAPITAL ASSETS AND LONG-TERM DEBTS

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, 2021 through 2022. The total investment in capital assets amounted to $66.2 million (net of accumulated depreciation). The overall corporate capital assets decreased by $3.891 million.

Table 13: PPUC's Capital Assets

CAPITAL ASSETS:	Sept 30, 2022	Sept 30, 2021	Increase (Decrease) 2021
Electric Plants:			
Electric Plants, Koror/Aimeliik	$ 33,202	$ 33,202	$ -
Electric Plants, Outlying States	2,302	2,302	-
Total Electric Plants	35,504	35,504	-
Accumulated Depreciation	(20,094)	(18,518)	(1,576)
Net Electric Plant	15,410	16,986	(1,576)
Transmission & Distribution System			
T&D System, Koror/Aimeliik	19,259	19,191	68
T&D System, Outlying States	2,149	2,149	-
Total T&D System	21,408	21,340	68
Accumulated Depreciation	(15,332)	(14,716)	(616)
Net T&D System	6,076	6,624	(548)
Water & Sewer Systems			
Water Infrastructure	40,695	40,269	426
Sewer Infrastructure	31,239	20,706	10,533
Total Water & Sewer Systems	71,934	60,975	10,959
Accumulated Depreciation	(45,173)	(42,899)	(2,274)
Net Water & Sewer Systems	26,761	18,076	8,685
Water & Sewer Transmission & Distribution System			
WWO T&D System, Koror/Babeldaob	1,381	1,381	-
Total WWO T&D System	1,381	1,381	-
Accumulated Depreciation	(443)	(369)	(74)
Net WWO T&D System	938	1,012	(74)
Administrative Equipment			
Buildings	3,239	3,169	70
Heavy Equipment & Vehicles	3,463	3,406	57
Tools & Maint Equipment	556	572	(16)
Computers & Office Equipment	1,442	1,457	(15)
Total Admin Equipment	8,700	8,604	96
Accumulated Depreciation	(6,207)	(5,761)	(446)
Net Admin Equipment	2,493	2,843	(350)
Total Capital Projects in Progress	14,546	24,574	(10,028)
TOTAL	$ 66,224	$ 70,115	$ (3,891)

Refer to note 6 to the financial statements for additional information about PPUC's capital assets.

Long-Term Debts

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 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 final statements. Additional loan of $5million is also a loan secured by ROP for PPUC from the Asian Development Bank. A Policy-Based Loan that requires reforms and tariff study and expected to augment PPUC's operations both in EPO and WWO.

The **Table 14** below shows the outstanding loans of PPUC:

	(Dollars in thousands)	
	Original	Sept 30, 2022
EPO International Loan (MEGA)	$ 7,000	$ 1,800
EPO Local Loan (NDBP)	$ 3,000	$ -
WWO International Loan (ADB 3060 & 3061)	$ 28,672	$ 22,398
Returnable Subsidy (RPPL 10-53 / 11-14)	$ 1,800	$ -
EPO ADB PBL Loan	$ 3,700	$ 4,600
WWO ADB PBL Loan	$ 1,300	$ 5,400
TOTAL	$ 45,472	$ 34,198

Refer to Note 7 of the financial statements for additional information about PPUC's financing activities.

Long-Term Debts, continued

Contracts amounting to $26.7 million have been awarded as shown in the **Table 15** below:

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	$	11,409
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 Quary	Long Island Park Public Restroom	$	145
Grant S. Murdie	Consulting Services	$	24
		$	26,696

CASH POSITION

PPUC financial statements are prepared on an "accrual" basis, which recognizes revenue and expenditure 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 then, 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.

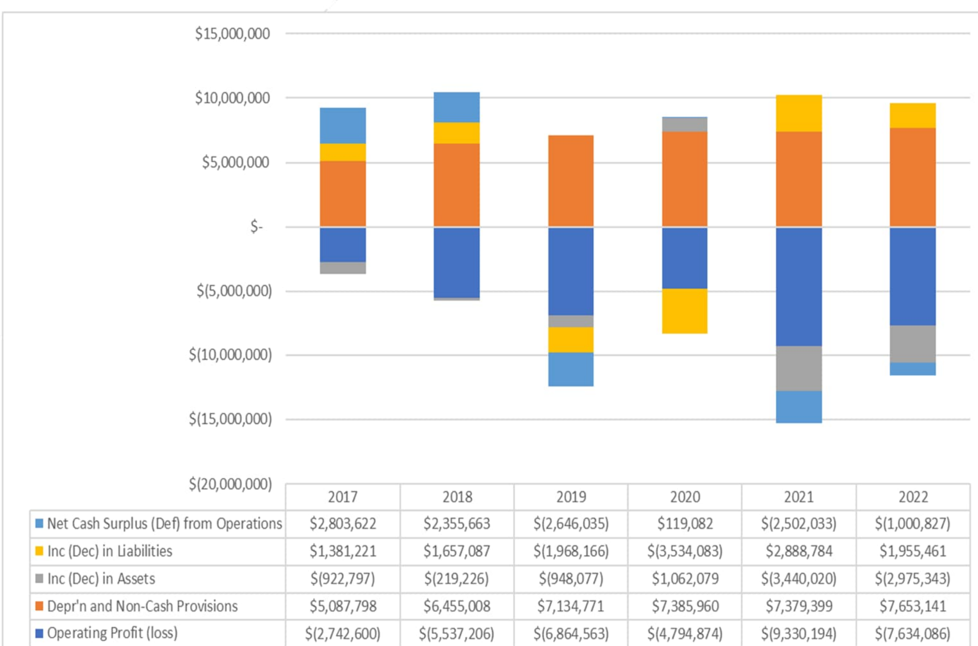
CASH POSITION, continued

The chart below shows the net operating cash surplus or deficit for the Corporation from FY 2017 through FY 2022. 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 recognizers the cost associated with the reduction in the value of assets used in operations, but 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 had been increasing in the past years but decreased in FY 2019 and FY 2020 due to pandemic. However, it increased again by FY 2021 and FY 2022 due to increase in fuel costs. 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. Of only minor impact has been the change in operating assets in each of the year.

All deferred procurements during pandemic were processed and paid in FY 2022 when the flights went back to normal operations.

The **Table 16** below shows the net operating cash surplus

	2017	2018	2019	2020	2021	2022
Operating loss	$(2,742,600)	$(5,537,206)	$(6,864,563)	$(4,794,874)	$(9,330,194)	$(7,634,086)
Depr'n and Non-Cash Provisions	$ 5,087,798	$ 6,455,008	$ 7,134,771	$ 7,385,960	$ 7,379,399	$ 7,653,141
Inc (Dec) in Assets	$(922,797)	$(219,226)	$(948,077)	$ 1,062,079	$(3,440,020)	$(2,975,343)
Inc (Dec) in Liabilities	$ 1,381,221	$ 1,657,087	$(1,968,166)	$(3,534,083)	$ 2,888,784	$ 1,955,461
Net Cash Surplus (Def) from Operations	$ 2,803,622	$ 2,355,663	$(2,646,035)	$ 119,082	$(2,502,031)	$(1,000,827)



CASH POSITION, continued

Pandemic and War

In the early months of CY 2020, the world was shocked of the emergence and widespread of the global pandemic called COVID-19 caused by severe acute respiratory syndrome coronavirus 2. It had become 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 in the global economy. Governments struggle with new lockdown measures to tackle the spread of the virus. Closing of portals and canceling of flights had been one of the major steps the national government had undertook, and that is true with the Republic of Palau, having known as covid-free. However, tourism industry was affected. Several commercial establishments had stopped or cut its operations to reduced cost and this includes utility consumption. In PPUC's effort to contribute to the global concern of pandemic, it had suspended the disconnection and charging of late fees in FY 2020. However, this had caused delays in payment of bills and increasing default despite the effort of collections, thus it was lifted in January 2021. Due to no flights and slow in shipments, most of the procurements were being delayed. These procurements include installations of some major asset and major overhauls that is 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 in Malakal Power Plant and the Mitsubishi in Aimeliik Powerplant. These are the four (4) major generators that supply most of the power in the whole island. One of the major impacts of this pandemic is the drastic decrease of the fuel price in FY 2020. It may have reduced the net loss, but not really considered a gain since this was returned to the customers by FY 2021 through the AFPAC. This showed in the very low fuel rate in periods of January to June 2021.

In the later months of FY 2021 going towards FY 2022, global economy begun to recover from the pandemic. However, the war in Ukraine sets back the global recovery. The economic damage from the conflict will contribute to a significant slowdown in global growth in 2022 and add to inflation. Fuel and food prices have increased rapidly and projected inflation at 8.6% as per IMF report.

The impact to PPUC were increased in fuel costs and other operating expenditures. Fuel price had increased by 75% in FY 2022 compared to FY 2020 during pandemic. Cost of major overhaul increased by 11% compared to prior pandemic and war. This made PPUC cut down some of its CIP's and delay it to later years.

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 paradise, it is sensitive to the global forces of climate change. In prior years, Palau's economy is primarily based on fishing and agriculture. However, commercial developments emerged due to the coming of tourists to visit the island. PPUC, being the sole provider of utilities had been successful in providing the whole Republic with the electric, water and wastewater services.

FUTURE OUTLOOK, continued

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; Government of Japan and the Government of Palau, to undertake major upgrade 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 investments 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 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 had 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. A tariff study for WWO as part of the ADB-PBL was done and completed in FY 2022. This was expected to be approved and implemented in FY 2023. This will enable WWO to recover the cost of operations, capital expenditures and debt services. However, due to the outlying states, Babeldaob and Youldaob remaining at 2011 rates until water quality is improved, it will not reach full-cost recovery.

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 had 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.

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, 2021 is set forth in PPUC's report on the audit of financial statements which is dated April 30, 2023.

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)

Statement of Net Position

September 30, 2022

Assets and Deferred Outflows of Resources

Utility plant:	
Depreciable utility plant, net	$ 51,677,691
Non-depreciable utility plant	14,546,255
Net utility plant	66,223,946
Current assets:	
Cash and cash equivalents	13,670,687
Receivables:	
Trade	4,978,729
Affiliate	222,970
Contracts	275,361
Other	224,333
	5,701,393
Less allowance for doubtful accounts	(2,480,524)
Net receivables	3,220,869
Prepaid expenses	1,641,755
Inventory, net	11,942,856
Total current assets	30,476,167
Total assets	96,700,113
Deferred outflows of resources from pension	9,276,421
	$105,976,534

See accompanying notes.

Palau Public Utilities Corporation
(A Component Unit of the Republic of Palau)

Statement of Net Position, continued

Liabilities, Deferred Inflows of Resources and Net Position

Net position:	
Net investment in utility plant	$ 41,042,188
Unrestricted	(11,991,142)
Total net position	29,051,046
Current liabilities:	
Current portion of long-term debt	1,807,251
Accounts payable	7,538,124
Accrued expenses	928,766
Advances from the Republic of Palau	389,338
Customer deposits	1,493,572
Total current liabilities	12,157,051
Long-term debt, net of current portion	32,390,618
Net pension liability	26,362,690
Total liabilities	70,910,359
Deferred inflows of resources from pension	6,015,129
	$105,976,534

See accompanying notes.

Palau Public Utilities Corporation
(A Component Unit of the Republic of Palau)

Statement of Revenues, Expenses and Changes in Net Position

Year Ended September 30, 2022

Operating revenues:	
Power	$23,662,929
Water	2,690,564
Wastewater	1,018,056
Other	1,862,813
Total operating revenues	29,234,362
Provision for uncollectible receivables	(149,750)
Net operating revenues	29,084,612
Operating expenses:	
Generation - fuel	17,807,552
Depreciation	5,127,696
Generation - other cost	3,628,972
Administration	3,365,805
Water operations	2,903,638
Distribution and transmission	1,997,921
Wastewater operations	911,398
Engineering services	694,001
Renewable energy	281,715
Total operating expenses	36,718,698
Operating loss	(7,634,086)
Nonoperating revenues (expenses):	
Operating subsidies from the Republic of Palau	2,576,220
Grants	32,250
Gain on disposal of utility plant	3,418
Interest income	573
Interest expense	(481,943)
Others	(239,958)
Total nonoperating revenues, net	1,890,560
Change in net position	(5,743,526)
Net position at beginning of year	34,794,572
Net position at end of year	$29,051,046

See accompanying notes.

Palau Public Utilities Corporation
(A Component Unit of the Republic of Palau)

Statement of Cash Flows

Year Ended September 30, 2022

Cash flows from operating activities:	
Cash received from customers	$25,000,634
Cash payments to suppliers for goods and services	(20,464,596)
Cash payments to employees for services	(5,759,193)
Net cash used in operating activities	(1,223,155)
Cash flows from investing activities: interest income	573
Cash flows from non-capital financing activities:	
Operating subsidies received from the Republic of Palau	2,576,220
Cash received from grantor agencies	32,250
Other non-capital activities	(239,959)
Net cash provided by non-capital financing activities	2,368,511
Cash flows from capital and related financing activities:	
Proceeds from issuance of long-term debt	6,302,706
Principal payments on long-term debt	(1,102,594)
Interest paid on long-term debt	(514,318)
Repayments of reimbursable grant from the Republic of Palau	(900,000)
Acquisition of utility plant	(1,233,104)
Net cash provided by capital and related financing activities	2,552,690
Net change in cash and cash equivalents	3,698,619
Cash and cash equivalents at beginning of year	9,972,068
Cash and cash equivalents at end of year	$13,670,687

See accompanying notes.

Palau Public Utilities Corporation
(A Component Unit of the Republic of Palau)

Statement of Cash Flows, continued

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$(7,634,086)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	5,127,696
Provision for uncollectible receivables	149,750
Pension expense	2,153,367
(Increase) decrease in assets:	
Receivables:	
Trade	(70,597)
Affiliate	4,338,690
Contracts	(83,608)
Other	(94,186)
Prepaid expenses	(53,144)
Inventory	(1,012,498)
Increase (decrease) in liabilities:	
Accounts payable	(2,304,291)
Accrued expenses	(135,835)
Grant advances from the Republic of Palau	(32,422)
Customer deposits	328,009
Net cash used in operating activities	$(1,223,155)

See accompanying notes.

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

The Governmental Accounting Standards Board (GASB) establishes financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB, equity is presented in the following net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation, plus construction or improvement of those assets, net of related debts.

- Restricted: Nonexpendable - net position subject to externally imposed stipulations that requires PPUC to maintain such permanently. Expendable - net position whose use by PPUC is subject to externally imposed stipulations that can be fulfilled by actions of PPUC pursuant to those stipulations or that expire by the passage of time. At September 30, 2022, PPUC does not have restricted net position.

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

2. Summary of Significant Accounting Policies, continued

Basis of Accounting

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

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.

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, 2022, cash and cash equivalents were $13,670,687 and the corresponding bank balances were $14,600,529 that are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022, bank deposits of $750,000 were subject to the FDIC insurance coverage limits. 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.

Receivables and Allowance for Uncollectable Accounts

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 against operating revenue.

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). Allowance for inventory obsolescence is provided for supplies that are determined to be potentially unusable.

Utility Plant and Depreciation

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.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. PPUC has determined differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability, changes of actuarial assumptions or other inputs and pension contributions made subsequent to the measurement date, and changes in proportion and differences between PPUC pension contributions and proportionate share of contributions qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. PPUC has determined differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability, differences between projected and actual earnings on pension plan investments, changes of actuarial assumptions or other inputs, and changes in proportion and differences between PPUC pension contributions and proportionate share of contributions qualify for reporting in this category.

2. Summary of Significant Accounting Policies, continued

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.

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. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing.

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.

Compensated Absences

Accumulated unpaid annual leave is accrued when earned and is included in the statement 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 statement of net position as an accrued expense.

2. Summary of Significant Accounting Policies, continued

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.

Recently Adopted Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of GASB Statement No. 87 during the year ended September 30, 2022 did not result in a material effect on the accompanying financial statements..

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of GASB Statement No. 92 during the year ended September 30, 2022 did not have an effect on the accompanying financial statements.

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans*. The primary objectives of this Statement are to (a) 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; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (c) 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. The adoption of GASB Statement No. 97 did not have an effect on the accompanying financial statements.

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. The adoption of GASB Statement No. 98 during the year ended September 30, 2022 did not have an effect on the accompanying financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:

- Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, as amended.
- Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets.
- Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit.

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended*, related to the focus of the government-wide financial statements.

- Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.*

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021.

These provisions of GASB Statement No. 99 were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

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

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. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, Continued

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. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022,* which include guidance that are effective for future periods:

- Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.

- Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.

- Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.

- Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.

- Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.

- Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, Continued

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal years ending September 30, 2025.

PPUC is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

3. Grants

PPUC is a subrecipient of federal grants received by the ROP from a U.S. federal agency. PPUC received grants of $32,250 for the year ended September 30, 2022 from the U.S. Government.

In addition, PPUC received subsidies and capital contributions from ROP (note 9).

4. Receivable from a Local Bank

At September 30, 2022, 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, 2022.

5. Inventory

Inventory at September 30, 2022, consists of the following:

Generation parts and supplies	$ 6,897,901
Fuel	4,407,413
Water distribution parts and supplies	799,629
Chemicals	312,046
Lubricants	60,700
	12,477,689
Allowance for slow moving and obsolete inventory	(534,833)
	$11,942,856

6. Utility Plant

Utility plant consists of the following detailed balances at September 30, 2022:

	Estimated Useful Lives	Balance at October 1, 2021	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2022
Depreciable utility plant:					
Electric plant	3 - 25 years	$ 35,962,116	$ ---	$ ---	$ 35,962,116
Water system	20 years	41,727,451	425,832	---	42,153,283
Sewer system	20 years	20,705,905	10,533,349	---	31,239,254
General support equipment	2 - 30 years	28,686,739	288,690	(108,716)	28,866,713
Administrative equipment	2 - 10 years	736,474	16,786	(35,216)	718,044
		127,818,685	11,264,657	(143,932)	138,939,410
Less accumulated depreciation		(82,277,955)	(5,127,696)	143,932	(87,261,719)
		45,540,730	6,136,961	---	51,677,691
Non-depreciable utility plant:					
Construction in progress		24,574,390	1,807,285	(11,835,420)	14,546,255
		$ 70,115,120	$ 7,944,246	$(11,835,420)	$ 66,223,946

7. Long-Term Debt

A. Long-Term Debt

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 ROP 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.	$ 1,800,000
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 grace period of 5 years 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 of 8 years 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 ROP.	22,397,869
On December 10, 2020, PPUC entered into two loans with ADB, passed through ROP, to improve financial sustainability. The initial loan is for $5,000,000 for twenty years with grace period of 5 years and bears interest of 2% per annum during the grace period and thereafter. Principal is to be repaid semi-annually beginning June 1, 2026. The signing date for the second loan of $5 million was on August 15, 2022 for also twenty years with grace period of 5 years and bears interest of 2% per annum during the grace period and thereafter. The loans are guaranteed by the ROP.	10,000,000
Total long-term debt	34,197,869
Less current maturities	(1,807,251)
	$32,390,618

7. Long-Term Debt, continued

A. Long-Term Debt, continued

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

Year Ending September 30,	Principal	Interest	Total
2023	$ 1,807,251	$ 692,809	$ 2,500,060
2024	1,807,251	668,067	2,475,318
2025	1,807,251	624,414	2,431,665
2026	1,807,251	582,023	2,389,274
2027	1,857,251	540,540	2,397,791
2028 - 2032	9,536,254	2,142,860	11,679,114
2033 - 2037	9,536,254	1,186,793	10,723,047
2038 - 2042	3,789,108	390,068	4,179,176
2043 - 2047	2,249,998	113,759	2,363,757
	$34,197,869	$6,941,333	$41,139,202

Movements in long-term bank debt for the year ended September 30, 2022, are as follows:

	Balance at October 1, 2021	Additions	Repayments	Balance at September 30, 2022	Balance Due in One Year
Long-term debt	$29,717,758	$5,600,111	$(400,000)	$34,197,869	$1,807,251

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.

The loan with ADB through ROP include certain covenants under articles 2 and 4 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

7. Long-Term Debt, continued

A. Long-Term Debt, continued

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.

The other $10 million loan with ADB include certain covenant under article 4 of the loan agreement which also requires PPUC to carry out reform program in accordance to program implementation arrangements set forth in schedule 4 of the loan agreement.

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 year ended September 30, 2022.

B. Other Long-Term Liabilities

Changes in other long-term liabilities during the year ended September 30, 2022 were as follows:

	Balance at October 1, 2021	Increases	Decreases	Balance at September 30, 2022	Balance Due in One Year
Due to Republic of Palau	$ 900,000	$ ---	$(900,000)	$ ---	$ ---
Net pension liability	27,696,488	---	(1,333,798)	26,362,690	---
	$28,596,488	$ ---	$(2,233,798)	$26,362,690	$ ---

8. Pension Plan

Plan Description

The following brief description of the Republic of Palau Civil Service Pension Plan and Trust (the Plan) is provided for general information purposes only.

General

The Plan is a defined benefit, cost sharing multiple employer plan, providing retirement, security and other benefits to employees, their spouses and dependents, of the Republic of Palau (ROP), ROP State Governments and ROP agencies, funds and public corporations. The Plan was established pursuant to 33 Palau National Code Annotated (PNCA) section 2001 passed on April 3, 1987, and began operations on October 1, 1987.

8. Pension Plan, continued

Summary of the Principal Provisions of the Plan

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, participate in the Plan. Membership consisted of the following as of October 1, 2021 (the valuation date):

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

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 at a participating employer. Years of membership service shall be rounded to the nearest one year. Membership service includes accumulated sick leave and vacation leave.

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), and the United States Naval Government after World War II and before the establishment of the TTPI.

8. Pension Plan, continued

Summary of the Principal Provisions of the Plan, continued

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 Board. 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. 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 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 Plan. 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.

8. Pension Plan, continued

Summary of the Principal Provisions of the 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:

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

Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee's accrued benefit 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:

- $1/12^{th}$ per year for the first 3 years before age 60;
- plus an additional $1/18^{th}$ per year for the next 3 years;
- plus an additional $1/24^{th}$ per year for the next 5 years; and
- plus an additional $1/50^{th}$ 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.

8. Pension Plan, continued

Summary of the Principal Provisions of the Plan, continued

Pension Benefits, continued

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

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

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.

- If the member was an employee at the date of death and had completed one year or more 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.

8. Pension Plan, continued

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 Plan 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 Republic of Palau must from time to time contribute additional sums to the Plan in order to keep the Plan on a sound actuarial basis. RPPL 9-2 requires the Government of ROP to make regular contributions to the Plan equal to the amount contributed by each and every employee of ROP. Additionally, an excise tax of four percent (4%) is levied against each non-citizen person transferring money out of ROP. The money transfer tax must be remitted to the Plan.

PPUC contributed $312,882 and $295,938 to the Plan during the fiscal years 2022 and 2021, respectively, which were equal to the required statutory contributions for the respective year then ended.

Actuarial Assumptions and Other Inputs

The total pension liability was determined by an actuarial valuation as of October 1, 2021 using the following actuarial assumptions and other inputs:

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
Long-term Expected Rate of Return:	6.74% per year, net of investment expenses, including price inflation

8. Pension Plan, continued

Actuarial Assumptions and Other Inputs, continued

Municipal Bond Index Rate:	2.17%
Year fiduciary net position is projected to be depleted:	2027
Price Inflation:	2.5% per year
Interest on Member Contributions:	5.0% per year
Salary Increase:	3.0% per year
Expenses:	$300,000 annually 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

Disability:

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

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.

8. Pension Plan, continued

Actuarial Assumptions and Other Inputs, continued

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

As of July 2024, the twenty-year arithmetic real rates of return for each major investment class are as follows:

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

Discount Rate

The discount rate used to measure the total pension liability was 2.23% at the current measurement date and 2.28% 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 2027. For years on or after 2027, the Municipal Bond Index Rate of 2.17% was used. The Municipal Bond Index Rate from the prior measurement date was 2.28%.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of September 30, 2022, calculated using the discount rate of 2.23%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.23%) or 1.00% higher (3.23%) from the current rate.

8. Pension Plan, continued

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

	1% Decrease 1.23%	Current Single Discount Rate Assumption 2.23%	1% Increase 3.23%
EPO	$18,814,997	$16,086,799	$13,855,948
WWO	12,018,464	10,275,891	8,850,770
	$30,833,461	$26,362,690	$22,706,718

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

Pension Liability

As of September 30, 2022, PPUC's proportionate share of the ROP net pension liability and PPUC's proportion of the ROP overall liability is as follows:

	Proportionate share of the net pension liability	Proportion of the overall liability
EPO	$16,086,799	5.28%
WWO	10,275,891	3.37%
	$26,362,690	

Pension Expense

For the year ended September 30, 2022, PPUC recognized pension expense as follows:

EPO	$1,581,607
WWO	890,963
	$2,472,570

8. Pension Plan, continued

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

Deferred Outflows and Inflows of Resources

At September 30, 2022, PPUC reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
EPO:		
Changes of assumptions	$3,079,963	$ 800,588
Net difference between projected and actual earnings on pension plan investments	22,635	103,020
Difference between expected and actual experience	395,516	2,611,795
Contributions subsequent to the measurement date	190,924	---
Changes in proportion and difference between EPO contributions and proportionate share of contributions	2,442,767	149,717
	6,131,805	3,665,120
WWO:		
Changes of assumptions	1,967,412	511,398
Net difference between projected and actual earnings on pension plan investments	14,459	65,807
Difference between expected and actual experience	252,647	1,668,357
Contributions subsequent to the measurement date	121,958	---
Changes in proportion and difference between WWO contributions and proportionate share of contributions	788,140	104,447
	3,144,616	2,350,009
	$9,276,421	$6,015,129

8. Pension Plan, continued

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

Deferred Outflows and Inflows of Resources, 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, 2022 will be recognized in pension expense as follows:

Year Ending September 30,	
EPO:	
2023	$ 858,469
2024	638,446
2025	638,446
2026	135,466
2027	916
Thereafter	4,018
	2,275,761
WWO:	
2023	442,261
2024	301,717
2025	301,715
2026	(19,569)
2027	(134,951)
Thereafter	(218,524)
	672,649
	$2,948,410

9. Related Party Transactions

Sale of Utility Services

Utility services of $8,190,498 were rendered to the ROP for the year ended September 30, 2022. PPUC provides utility services to the ROP at the same rates charged to third parties.

Receivable from affiliate of $222,970 at September 30, 2022 are due from the ROP for utility services.

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. On December 10, 2020, PPUC entered into another two loans with ADB that are also pass through ROP, to improve financial sustainability.

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, 2022, PPUC recognized $26,220 of WWO operating subsidies from the ROP.

Due to a restriction on PPUC's ability to increase its electricity tariffs, ROP provided a $2,550,000 appropriation to help reduce the impact of rising fuel prices for the year ended September 30, 2022.

10. 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.

10. Commitments, continued

Fuel Supply, continued

n 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, 2022, PPUC has various on-going construction contracts with a $28 million contract price of which $13 million is recorded as construction in progress.

11. 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 12).

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.

12. 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.

13. Dependency on the Republic of Palau

PPUC incurred an operating loss of $7,634,086 for the year ended September 30, 2022, which mainly due to the operating loss of $6,724,571 incurred by WWO. 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 has taken the following actions and measures to address losses from operations and negative cash flows from operations:

a. PPUC had submitted proposed WWO rate to Palau Energy and Water Administration (PEWA) in April 2022, was approved by PEWA in October 2022 and implemented in May 2023. PPUC has also introduced another tariff proposal and was implemented in February 2025.

b. PPUC seeks assistance from ROP to support operations and to pay off ADB KASP loan. Several letters were sent by PPUC to ROP seeking for financial support. A letter from the Board was also transmitted seeking assistance to pay off ADB KASP loan.

c. PPUC indicate cost cutting measures to manage labor by optimizing schedules especially overtime. For WWO operations, no capital improvement projects, and fixed assets were purchased except for those that are ADB related projects.

d. PPUC applied for technical cooperation under Japan International Cooperation Agency (JICA) to improve our Non-Revenue Water reduction capacity. This application included request for new leak detection tools, training for staff and plan for pipe replacement. PPUC also applied for the new vacuum truck for Wastewater Operations. All these are approved during the year ended September 30, 2023.

Required Supplementary Information

Palau Public Utilities Corporation
(A Component Unit of the Republic of Palau)

Schedule 1
Schedule of Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Republic of Palau net pension liability	$304,866,042	$344,384,167	$308,480,463	$250,868,784	$259,395,005	$249,453,960	$215,546,176	$204,281,232	$182,080,332
PPUC's proportionate share of the net pension liability	$ 26,362,690	$ 27,696,488	$ 24,776,269	$ 19,976,072	$ 18,054,380	$ 16,006,220	$ 13,674,468	$ 13,135,896	$ 12,920,967
PPUC's proportion of the net pension liability	8.65%	8.04%	8.03%	7.96%	6.96%	6.42%	6.34%	6.43%	7.10%
PPUC's covered-employee payroll**	$ 5,266,023	$ 4,932,300	$ 4,799,783	$ 4,671,500	$ 4,032,283	$ 3,398,382	$ 3,076,703	$ 3,022,976	$ 2,964,580
PPUC's proportionate share of the net pension liability as percentage of its covered employee payroll	500.62%	561.53%	516.20%	427.62%	447.75%	471.00%	444.45%	434.54%	435.84%
Plan fiduciary net position as a percentage of the total pension liability	10.47%	8.42%	8.26%	10.24%	10.18%	10.55%	11.54%	14.01%	16.00%

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.

Palau Public Utilities Corporation
(A Component Unit of the Republic of Palau)

Schedule 2
Schedule of Pension Contributions
Last 10 Fiscal Years*

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$1,337,570	$1,267,039	$1,131,733	$1,378,558	$1,195,686	$ 925,093	$ 691,501	$ 683,121	$ 714,295
Contribution in relation to the actuarially determined contribution	$ 312,882	$ 295,938	$ 287,987	$ 280,290	$ 241,937	$ 201,110	$ 183,373	$ 178,010	$ 178,540
Contribution deficiency	$1,024,688	$ 971,101	$ 843,746	$1,098,268	$ 953,749	$ 723,983	$ 508,128	$ 505,111	$ 535,755
PPUC's covered-employee payroll **	$5,266,023	$4,932,300	$4,799,783	$4,671,500	$4,032,283	$3,398,382	$3,076,703	$3,022,976	$2,964,580
Contribution as a percentage of covered-employee payroll	5.94%	6.00%	6.00%	6.00%	6.00%	5.92%	5.96%	5.89%	6.02%

* 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.

Supplementary Information

Palau Public Utilities Corporation
(A Component Unit of the Republic of Palau)

Schedule 3
Combining Statement of Net Position

September 30, 2022

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Assets and Deferred Outflows of Resources				
Utility plant:				
Depreciable utility plant	$23,692,145	$27,985,546	$ ---	$ 51,677,691
Non-depreciable utility plant	1,061,651	13,484,604	---	14,546,255
Net utility plant	24,753,796	41,470,150	---	66,223,946
Current assets:				
Cash and cash equivalents	12,274,952	1,395,735	---	13,670,687
Receivables:				
Trade	3,561,272	1,417,457	---	4,978,729
Affiliate	11,654,423	4,100,000	(15,531,453)	222,970
Contracts	166,884	108,477	---	275,361
Other	47,867	176,466	---	224,333
	15,430,446	5,802,400	(15,531,453)	5,701,393
Less allowance for doubtful accounts	(1,439,130)	(1,041,394)	---	(2,480,524)
Net receivables	13,991,316	4,761,006	(15,531,453)	3,220,869
Prepaid expenses	1,598,691	43,064	---	1,641,755
Inventory, net	10,831,181	1,111,675	---	11,942,856
Total current assets	38,696,140	7,311,480	(15,531,453)	30,476,167
Other non-current assets:				
Contracts receivable, net of current portion	720,000	---	(720,000)	---
Total assets	64,169,936	48,781,630	(16,251,453)	96,700,113
Deferred outflows of resources from pension	6,131,805	3,144,616	---	9,276,421
	$70,301,741	$51,926,246	$(16,251,453)	$105,976,534

Palau Public Utilities Corporation
(A Component Unit of the Republic of Palau)

Schedule 3, continued
Combining Statement of Net Position, continued

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Liabilities, Deferred Inflows of Resources and Net Position				
Net position:				
Net investment in utility plant	$23,889,796	$17,152,392	$ ---	$ 41,042,188
Unrestricted	6,727,726	(18,718,868)	---	(11,991,142)
Total net position	30,617,522	(1,566,476)	---	29,051,046
Current liabilities:				
Current portion of long-term debt	400,000	1,407,251	---	1,807,251
Accounts payable	11,400,406	11,669,171	(15,531,453)	7,538,124
Accrued expenses	445,234	483,532	---	928,766
Advances from ROP	389,338	---	---	389,338
Customer deposits	1,297,322	196,250	---	1,493,572
Total current liabilities	13,932,300	13,756,204	(15,531,453)	12,157,051
Long-term debt, net of current portion	6,000,000	27,110,618	(720,000)	32,390,618
Net pension liability	16,086,799	10,275,891	---	26,362,690
Total liabilities	36,019,099	51,142,713	(16,251,453)	70,910,359
Deferred inflows of resources from pension	3,665,120	2,350,009	---	6,015,129
	$70,301,741	$51,926,246	$(16,251,453)	$105,976,534

Palau Public Utilities Corporation
(A Component Unit of the Republic of Palau)

Schedule 4
Combining Statement of Revenues, Expenses and Change in Net Position

Year Ended September 30, 2022

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Operating revenues:				
Power	$26,912,987	$ ---	$(3,250,058)	$23,662,929
Water	---	2,789,296	(98,732)	2,690,564
Wastewater	---	1,018,056	---	1,018,056
Other	1,585,425	277,388	---	1,862,813
Total operating revenues	28,498,412	4,084,740	(3,348,790)	29,234,362
Provision for uncollectible receivables	(175,729)	25,979	---	(149,750)
Net operating revenues	28,322,683	4,110,719	(3,348,790)	29,084,612
Operating expenses:				
Generation - fuel	17,807,552	---	---	17,807,552
Depreciation	2,675,012	2,452,684	---	5,127,696
Generation - other cost	3,640,003	---	(11,031)	3,628,972
Administration	2,087,055	1,345,631	(66,881)	3,365,805
Water operations	---	5,482,721	(2,579,083)	2,903,638
Distribution and transmission	2,030,396	---	(32,475)	1,997,921
Wastewater operations	---	1,554,254	(642,856)	911,398
Engineering services	702,232	---	(8,231)	694,001
Renewable energy	289,948	---	(8,233)	281,715
Total operating expenses	29,232,198	10,835,290	(3,348,790)	36,718,698
Operating loss	(909,515)	(6,724,571)	---	(7,634,086)
Nonoperating revenues (expenses):				
Operating subsidies from the Republic of Palau	2,550,000	26,220	---	2,576,220
Grants	18,705	13,545	---	32,250
Gain on disposal of utility plant	3,418	---	---	3,418
Interest income	424	149	---	573
Interest expense	(153,892)	(328,051)	---	(481,943)
Others	(758)	(239,200)	---	(239,958)
Total nonoperating revenues (expenses), net	2,417,897	(527,337)	---	1,890,560
Change in net position	1,508,382	(7,251,908)	---	(5,743,526)
Net position at beginning of year	29,109,140	5,685,432	---	34,794,572
Net position at end of year	$30,617,522	$(1,566,476)	$ ---	$29,051,046

Palau Public Utilities Corporation
(A Component Unit of the Republic of Palau)

Schedule 5
Combining Statement of Cash Flows

Year Ended September 30, 2022

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Cash flows from operating activities:				
Cash received from customers	$24,034,358	$4,315,066	$(3,348,790)	$25,000,634
Cash payments to suppliers for goods and services	(21,622,451)	(2,190,935)	3,348,790	(20,464,596
Cash payments to employees for services	(3,373,367)	(2,385,826)	---	(5,759,193)
Net cash used in operating activities	(961,460)	(261,695)	---	(1,223,155)
Cash flows from investing activities:				
Interest income	425	148	---	573
Cash flows from non-capital financing activities:				
Appropriations received from the Republic of Palau	2,550,000	26,220	---	2,576,220
Cash received from grantor agencies	18,705	13,545	---	32,250
Other non-capital activities	(759)	(239,200)	---	(239,959)
Net cash provided by (used in) non-capital financing activities	2,567,946	(199,435)	---	2,368,511
Cash flows from capital and related financing activities:				
Proceeds from issuance of long-term debt	5,000,000	1,302,706	---	6,302,706
Principal payment on long-term debt	(400,000)	(702,594)	---	(1,102,594)
Interest paid on long-term debt	(186,267)	(328,051)	---	(514,318)
Repayments of reimbursable grant from the Republic of Palau	(900,000)	---	---	(900,000)
Acquisition of utility plant	(359,985)	(873,119)	---	(1,233,104)
Net cash provided by (used in) capital and related financing activities	3,153,748	(601,058)	---	2,552,690
Net change in cash and cash equivalents	4,760,659	(1,062,040)	---	3,698,619
Cash and cash equivalents at beginning of year	7,514,293	2,457,775	---	9,972,068
Cash and cash equivalents at end of year	$12,274,952	$1,395,735	$ ---	$13,670,687

Supplemental information and noncash financing activities:

Transfer of long-term debt	$(4,100,00)	$4,100,000

Palau Public Utilities Corporation
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Schedule 5, continued
Combining Statement of Cash Flows, continued

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$(909,515)	$(6,724,571)	$ ---	$(7,634,086)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	2,675,012	2,452,684	---	5,127,696
Provision for uncollectible receivables	175,729	(25,979)	---	149,750
Pension expense	1,375,562	777,805	---	2,153,367
(Increase) decrease in assets:				
Receivables:				
Trade	(922,402)	151,805	---	(770,597)
Affiliate	(3,097,107)	116,183	7,319,614	4,338,690
Contracts	(682,411)	98,803	---	(583,608)
Other	(18,259)	(175,927)	---	(194,186)
Prepaid expenses	(790,937)	137,793	---	(653,144)
Inventory	(1,164,478)	151,980	---	(1,012,498)
Increase (decrease) in liabilities:				
Accounts payable	2,251,291	2,764,032	(7,319,614)	(2,304,291)
Accrued expenses	(110,070)	(25,765)	---	(135,835)
Grant advances from the Republic of Palau	(32,422)	---	---	(32,422)
Customer deposits	288,547	39,462	---	328,009
Net cash used in operating activities	$(961,460)	$(261,695)	$ ---	$(1,223,155)

Palau Public Utilities Corporation
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Schedule 6
Schedule of Revenues and Expenses (Before Elimination)

Year Ended September 30, 2022

	Electric Power Operations	Water and Wastewater Operations
Operating revenues:		
Commercial	$ 8,117,976	$ 1,139,608
Residential	9,545,406	1,989,740
Government	1,578,052	163,222
Republic of Palau and component units	7,671,553	529,134
Other	1,585,425	263,036
	$28,498,412	$ 4,084,740
Operating expenses:		
Personnel costs:		
Salaries and wages	$ 3,263,297	$ 2,360,061
Employee benefits	500,332	362,410
Other employee benefits	47,687	27,277
Pension expense adjustment - GASB 68	1,375,562	777,805
Total personnel costs	5,186,878	3,527,553
Generation - fuel	17,807,552	---
Depreciation	2,675,012	2,452,684
Repairs and maintenance	2,429,172	771,712
Utilities	98,732	3,250,058
Small tools and equipment	94,548	35,727
Professional services	98,041	57,395
Gas and oil	167,680	103,641
Insurance	142,100	57,912
Supplies	97,710	54,257
Communication	73,266	46,808
Rent	36,735	29,525
Water treatment chemicals	---	288,159
Others	324,772	159,859
	$29,232,198	$10,835,290

Ernst & Young (CNMI), Inc.
Island Mart Building
2nd Floor, Iyebukl
P.O. Box 1016
Koror, Palau 96940

Tel: 680 488 2705
Fax: 680 488 3391
ey.com

Report of Independent Auditors 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*

Management and the Board of Directors
Palau Public Utilities Corporation:

We have audited, in accordance with the 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 Palau Public Utilities Corporation (PPUC), which comprise the statement of net position as September 30, 2022, 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 April 8, 2025.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PPUC's internal control over financial reporting (internal control) to determine the 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 PPUC's internal control. Accordingly, we do not express an opinion on the effectiveness of PPUC'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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during the 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 PPUC'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 determination of financial statement amounts. 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.

Ernst + Young