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

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Public Utilities Corporation:

Report on Financial Statements

We have audited the accompanying financial statements of the Palau Public Utilities Corporation (PPUC), a component unit of the Republic of Palau, which comprise the statements of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palau Public Utilities Corporation as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Going Concern

The accompanying financial statements have been prepared assuming PPUC will continue as a going concern. As discussed in Note 14 to the financial statements, the Water and Wastewater Operations incurred an operating loss of $4,673,281 and $4,129,517 for the years ended September 30, 2020 and 2019, respectively. Management plans in regard to these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 25 as well as the Schedule of Proportional Share of the Net Pension Liability on page 51 and the Schedule of Pension Contributions on page 52 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Statement of Net Position, Combining Statement of Revenues, Expenses and Changes in Net Position, Combining Statement of Cash Flows, and Schedule of Revenues and Expenses as of and for the year ended September 30, 2020 on pages 53 through 56 are presented for purposes of additional analysis and are not a required part of the financial statements. The Combining Statement of Net Position, Combining Statement of Revenues, Expenses and Changes in Net Position, Combining Statement of Cash Flows, and Schedule of Revenues and Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Net Position, Combining Statement of Revenues, Expenses and Changes in Net Position, Combining Statement of Cash Flows, and Schedule of Revenues and Expenses are fairly stated, in all material respects, in relation to the financial statements as a whole.

Deloitte.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2021, on our consideration of PPUC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PPUC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PPUC's internal control over financial reporting and compliance.

Deloitte & Touche LLP

October 26, 2021

The Management's Discussion and Analysis (MD&A) presents the Palau Public Utilities Corporation's financial performance during the fiscal year ended September 30, 2020. 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 for the year ended September 30, 2020, which follow this section.

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

COMPANY OVERVIEW

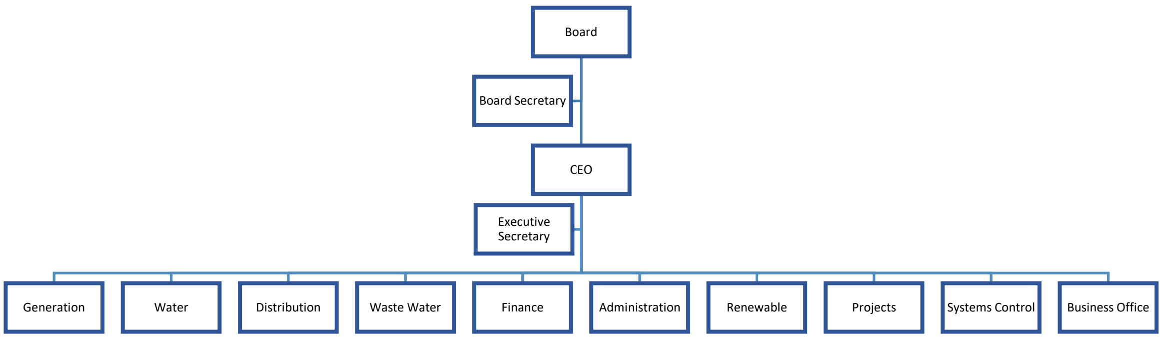
The Public Utilities Corporation (PUC) was created on July 6, 1994. PUC was mandated by law to plan, develop and execute an electrification plan for the entire Republic of Palau. On June 6, 2013, the Republic of Palau law, RPPL No. 9-04, was signed and consolidated two independent public corporations; 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 290 employees as of to date, delivering both electricity and water/wastewater operations to the entire Republic of Palau.

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

An organizational chart was created and adopted by the Board of Directors. The organizational chart has been modified and improved over time to reflect 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 (2020) 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 Flows provides information on corporate cash inflows and outflows, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities. The Statement provides insight into aspects of cash management, including the sources and uses of cash, and the net change in cash balance during the fiscal year.

ELECTRIC POWER OPERATIONS

Electric Power Operations (EPO) has succeeded in providing power services 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 are located in Peleliu, Angaur and Kayangel servicing less than five hundred people.

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

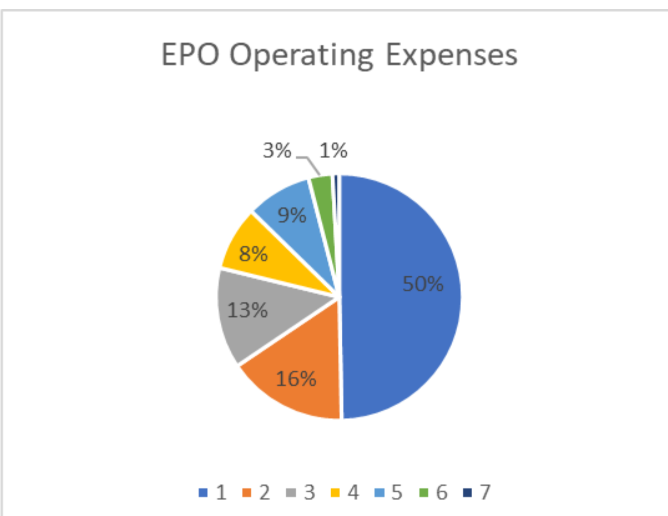
Power Stations	Generators	Capacity	Coverage
Aimeliik	Mitsubishi 6	5.0 mw	Koror-Babeldaob
	Mitsubishi 7	5.0 mw	Koror-Babeldaob
Malakal	Niigata 14	5.0 mw	Koror-Babeldaob
	Niigata 15	5.0 mw	Koror-Babeldaob
	Mitsubishi 13	2.5 mw	Koror-Babeldaob
	Cat 2	1.2 mw	Koror-Babeldaob
	Cat 3	1.2mw	Koror-Babeldaob
	Mitsubishi 16	500 kw	Koror-Babeldaob
	Mitsubishi 17	500 kw	Koror-Babeldaob
	Mitsubishi 18	500kw	Koror-Babeldaob
	Mitsubishi 19	500kw	Koror-Babeldaob
Peleliu	Yanmar 1	750 kw	Peleliu
	Yanmar 2	750 kw	Peleliu
	FG Wilsom	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 5	75 kw	Kayangel
	Cummins 6	90 kw	Kayangel

The Renewable Energy Division (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 mWp. Included in these are the Ngerulmud Capitol, Palau International Airport, Track and Field, Palau Community College Cafeteria, and NDBP, where PPUC had an existing Memorandum of Agreement to take the responsibility for the management and maintenance of the solar PV Systems. Credit to these solar customers is in accordance to the Net Metering Act (RPPL 8-39) and 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 four (4) additional solar installations are: Kayangel Power Station (65.7 kWp); Palau Community College (113.11 kWp); Belau National Museum (23.85 kWp); and Angaur Power Station (100 kWp-Hybrid System). These are some measures PPUC are doing in order to reduce fuel expenses. At this time, the bidding for an Independent Power Producer (IPP) is on-going. This endeavor is expected to save PPUC from fuel costs and maintenance. Should this materialize, it will provide 20% solar energy in phase 1 and 45% in phase 2.

In addition to energy alternatives, PPUC continues its efforts for austerity measures, fuel efficiency and reduction of energy losses with upgrades to its aging infrastructure and equipment. PPUC is doing regular maintenance to transmission and distribution lines and power generators. Regular checking for electrical theft is done to reduce non-technical losses. PPUC uses all necessary means in order to reduce system losses.

The chart below shows the ratio of the total operating expenses of the EPO for FY 2020 and the generation/system loss of PPUC since FY 2014 up to FY 2020.

Chart 2. Total Operating Expense of EPO:



Legend	
1	Generation Fuel
2	Generation Other Costs
3	Depreciation
4	Administration
5	Dist'n & Transmission
6	Engineering
7	Renewable Energy

It shows that almost 50% of the operating expenses is generation fuel.

Table 2. Generation/System loss of PPUC from FY 2015 to FY 2020

kWh	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Generated	83,110,260	85,717,446	86,115,514	89,429,875	88,615,682	86,423,122
Billed	66,923,617	70,928,769	74,032,703	75,429,455	74,824,795	74,965,125
Billed %	81%	83%	86%	84%	84%	87%
kWh Loss	16,186,643	14,788,677	12,082,811	14,000,420	13,790,887	11,457,997
Loss %	19%	17%	14%	16%	16%	13%

However, capital improvement projects (CIPs) had been put on hold since FY 2018 due to scarcity of funds. PPUC does not have enough cash-on-hand to cover its CIPs. Included in these CIP's are the $2.5 million modification of the system controls of Niigata generator in Malakal power plant and the $2 million replacement of the cargo line in Aimeliik power plant. These two major improvements are urgent and necessary. Other major CIPs that are put on hold are the Ngerikiil and Ngeremlengui systems upgrade which totals $1 million. In accordance to RPPL 10-19,10-26, and 10-42; PPUC was prohibited from increasing its tariff since October 2017 which has affected the Corporation's financial performance and liquidity as it cannot recover its fuel costs through revenue, thus leaving it with a $2.1 million net loss in FY 2018 and $2.2 million net loss in FY2019 even after receiving a $500,000 subsidy from the Palau National Government (ROP). Due to these prohibitions, PPUC is concerned about its liquidity in FY 2020 because it had used $2.5 million of its maintenance account to cover fuel and some maintenance costs. The $2.25 million sinking fund in this maintenance account is an affirmative covenant in the National Development Bank of Palau (NDBP) loan, where PPUC is required to contribute a minimum of $250,000 per annum for replacement or maintenance of the Niigata generators. PPUC made a very courageous step to ask the ROP to lift the prohibition. However, ROP provided a $1.8 million returnable subsidy instead as an immediate cash outlay for PPUC under RPPL 10-53.

Through RPPL 10-53, ROP injected a $1.8 million reimbursable subsidy to cover the immediate operational needs and some capital expenditures of PPUC, provided that this shall be reimbursed once the concessionary financing for operations and capital investment requirements is secured. Early 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. Subprogram 1 will cover the Electric Power Operations and Subprogram 2 is for Water and Wastewater Operations. This PBL requires corporate reforms and a tariff study for PPUC. ADB provided the technical assistance of hiring consultants to do the study and reforms together with the working committee of PPUC to meet the requirements of this PBL. A new base tariff for EPO was established and was approved by Palau Energy Administration (PEA) in May 2021 and was effective beginning June 2021. The ADB-PBL was in process at September 30, 2020 and the first tranche of the $10 million loan was released in September 2021.

The tables below show the tariff that PPUC had been adapting from FY 2018 to FY 2020 and the affirmative covenant with NDBP.

Table 3: EPO Tariff Schedule

EPO Tariff Schedule				
Effective January 1, 2018				
Band	**kWh**	**Energy**	**Fuel**	**Rate**
1 - Res	0 - 150	0.020	0.177	0.197
2 - Res	151 - 500	0.094	0.177	0.271
3 - Res	501 +	0.143	0.177	0.320
Com/Govt	0 - 150,000	0.143	0.177	0.320
Com/Govt	150,001 - 250,000	0.133	0.177	0.310
Com/Govt	250,001 +	0.123	0.177	0.300
		0.109	Ave Rate	0.286

Table 4: Affirmative covenant in NDBP:

AFFIRMATIVE COVENANTS	1. Company to maintain a minimum net worth of $25,000,000.00 2. Company to maintain Accounts Receivable to Current Assets Ratio of not more than 25%. 3. Create a sinking fund for engine/generator replacement/maintenance with contribution of a minimum of $250,000.00 per annum to commence FY 2011.

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

Table 5. kWh Generated vs kWh Billed vs Fuel Consumption

kWh/Gal	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Generated	83,110,260	85,717,446	86,115,514	89,429,875	88,615,682	86,411,882
Billed	66,923,617	70,928,769	74,032,703	75,429,455	74,824,795	74,965,125
Fuel Consumption	5,740,910	5,768,507	5,767,248	5,952,863	5,973,160	5,803,225
% Inc/(Dec) in Generation	4.86%	3.14%	0.46%	3.85%	-0.91%	-2.49%
% Inc/(Dec) in Billing	0.22%	5.98%	4.38%	1.89%	-0.80%	0.19%
% Inc/(Dec) in Fuel Consumption	8.94%	0.48%	-0.02%	3.22%	0.34%	-2.84%

Chart 3. kWh Generated vs kWh Billed

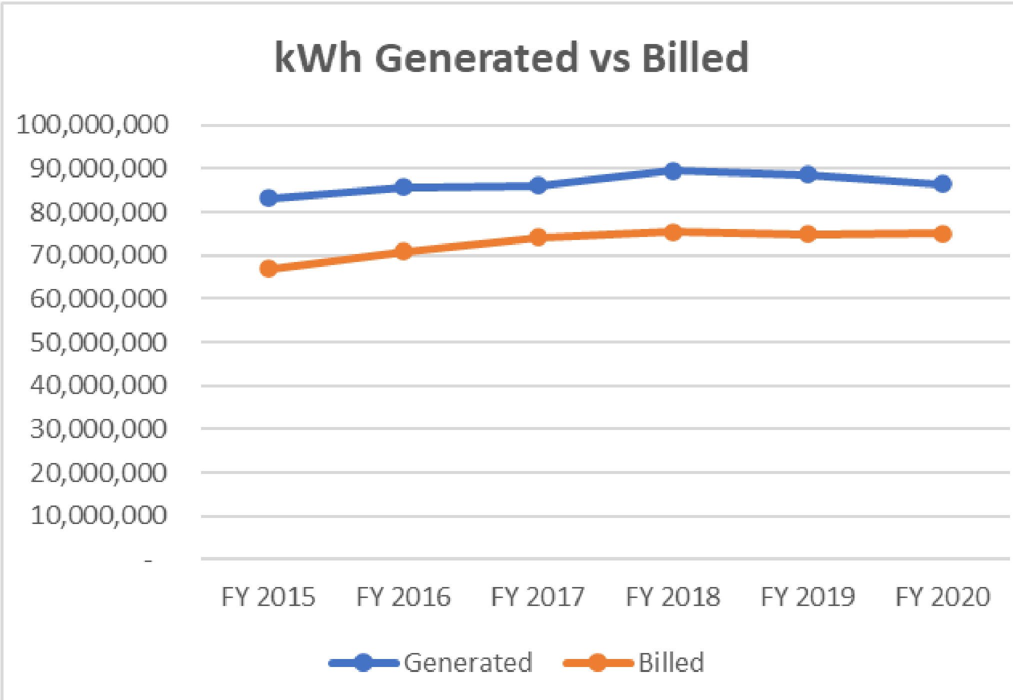
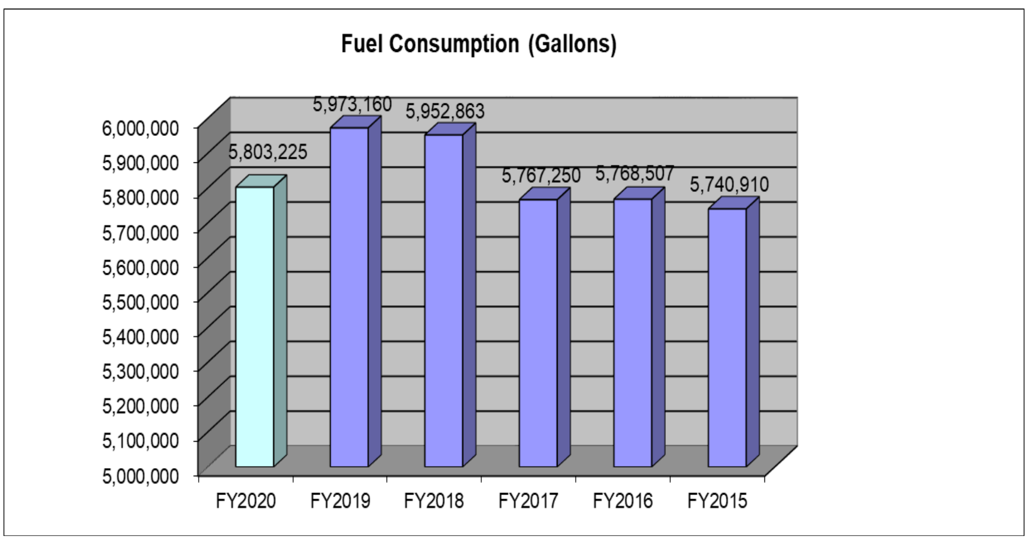


Chart 4: Fuel Consumption



kWh generated has decreased by 2.49%, kWh billed has increased by 0.19%, and fuel consumption decreased by 2.84% in FY 2020 compared to last year. Austerely measures were enacted by PPUC to cut down costs without sacrificing the quality of services despite tariff prohibition.

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

Chart 5: Fuel Efficiency

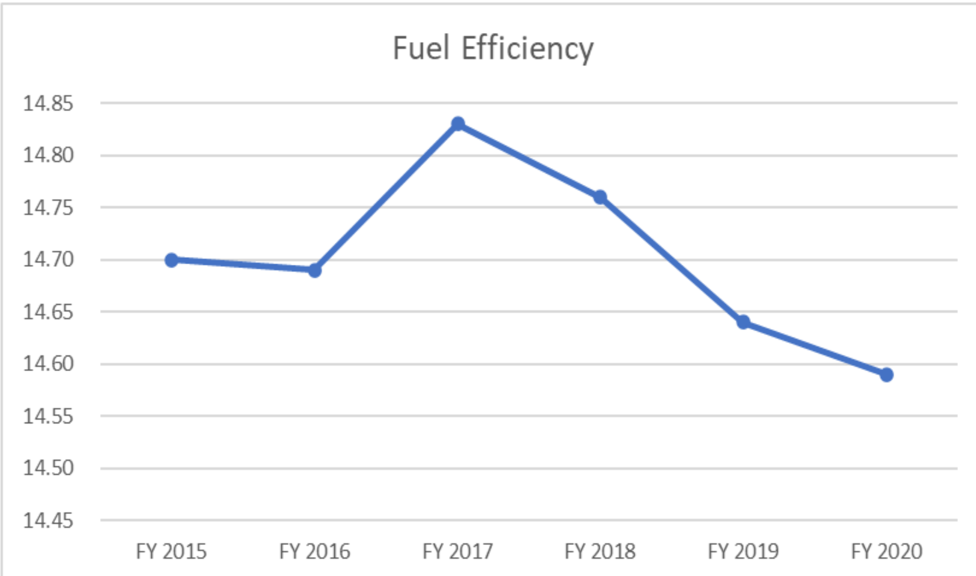
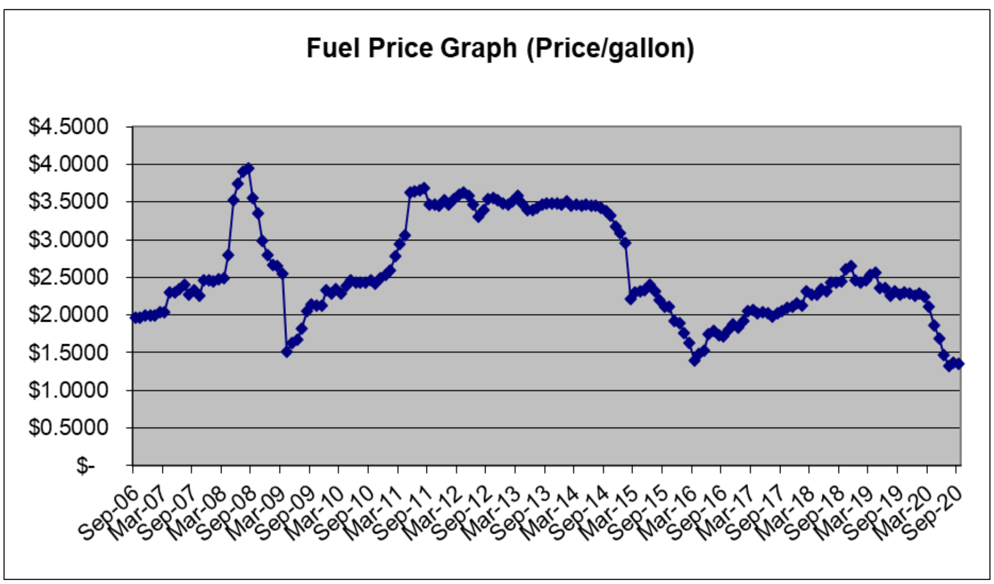


Chart 6: Fuel Price



The fuel efficiency begins to rise in FY 2016 and FY 2017 but begins to deflate in FY 2018 to FY 2020. Benchmark for all pacific island fuel efficiency is at 15.14 as per a report by the Pacific Power Association (PPA). Notice the changes in fuel prices rises and falls very rapidly. It started to fall in FY 2016 and began to rise again until early quarters of FY 2019; however, it started to decline in FY 2020. Based on the world's fuel market, fuel price declined by almost 60% in the 2nd quarter of CY 2020. 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 travel. This has impacted the economy globally and has been a great challenge among nations especially in the tourism industry.

EPO Financial Highlights

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

	(Dollars in Thousands)				
ELECTRIC POWER OPERATIONS	**SEPT. 30, 2020**	**SEPT. 30, 2019**	**SEPT. 30, 2018**	**INC/(DEC) 2020**	**INC/(DEC) 2019**
Revenues, Expenses, and Changes in Net Position					
Operating Revenues					
Electric	21,677	22,027	22,113	(350)	(86)
Others	680	934	1,101	(254)	(167)
Prov'n for Bad Debts	(72)	(267)	(119)	195	(148)
Non-Operating Revenue/(Expenses)	126	257	(267)	(131)	524
Total Revenue	**22,411**	**22,951**	**22,828**	**(540)**	**123**
Operating Expenses					
Generation Fuel	11,137	14,624	14,026	(3,487)	598
Generation Other Costs	3,552	3,484	3,629	68	(145)
Depreciation	2,970	3,080	2,976	(110)	104
Administration	1,902	1,800	1,805	102	(5)
Dist'n & Transmission	1,940	1,618	1,590	322	28
Engineering	704	625	770	79	(145)
Renewable Energy	202	199	232	3	(33)
Total Operating Expenses	**22,407**	**25,430**	**25,028**	**(3,023)**	**402**
Capital Contributions	24	173	65	(149)	108
Change in Net Position	28	(2,306)	(2,135)	2,334	(171)
Beginning Net Position	33,793	36,098	38,233	(2,305)	(2,135)
Ending Net Position	**33,821**	**33,792**	**36,098**	**29**	**(2,306)**

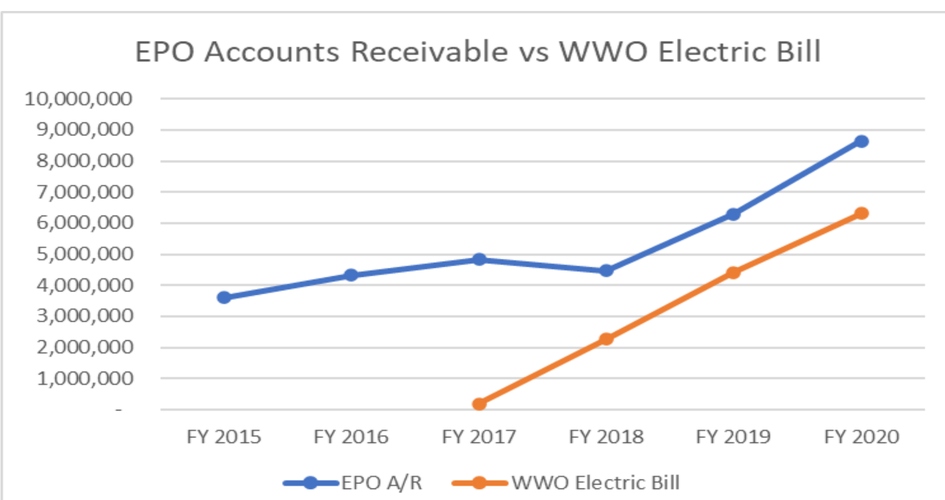
Operating revenue decreased by 1.5%. Factors that contributed to this decrease are: prohibition of increases to the tariff, closing of most commercial establishments due to pandemic and suspension of disconnection and late fees. All of these occurred in the 3rd quarter of FY 2020. kWh billed might have slightly increased by 0.19% as shown in the chart 3, but this is mostly from residential customers due to the government's mandate to work from home and pending classes due to the threat of pandemic. PPUC, in its effort to contribute support for the decline in the tourism industry and closing of most commercial establishments suspended its disconnection and late fee charges. Fuel consumption decreased by 2.84% while fuel prices decreased as shown in Charts 4 and 6. Total expenses decreased due to austere measures and pending procurements, installations and troubleshoots due to no flights and delay in shipments brought on by the pandemic. However, due to the drastic decline of fuel prices in the world market, fuel expense decreased by almost 24%, which led to the major decrease of the overall expenses of EPO despite the tariff increase prohibition. These resulted in a net operating loss of only $121,593 (after the pension expense adjustment – GASB 68) in FY 2020 compared to last year's loss of $2.3 million. This decrease in fuel cost will be factored into the AFPAC calculation.

Table 7: EPO Statements of Net Position

	(Dollars in Thousands)				
ELECTRIC POWER OPERATIONS	**SEPT. 30, 2020**	**SEPT. 30, 2019**	**SEPT. 30, 2018**	**INC/(DEC) 2020**	**INC/(DEC) 2019**
Statement of Net Position					
Current Assets	24,324	21,284	21,555	3,040	(271)
Other Assets	111	113	177	(2)	(64)
Net Utility Plant	29,875	32,378	34,861	(2,503)	(2,483)
Total Assets	54,310	53,775	56,593	535	(2,818)
Deferred Outflows from Pension	5,608	4,261	3,388	1,347	873
	59,918	**58,036**	**59,981**	**1,882**	**(1,945)**
Current Liabilities	4,453	6,323	7,051	(1,870)	(728)
Other Liabilities	5,066	3,910	4,536	1,156	(626)
Net Pension Liability	14,355	11,912	10,665	2,443	1,247
Total Liabilities	23,874	22,145	22,252	1,729	(107)
Deferred Inflows from Pension	2,223	2,098	1,631	125	467
	26,097	**24,243**	**23,883**	**1,854**	**360**
Invested in Capital Assets	27,091	29,402	31,483	(2,311)	(2,081)
Unrestricted	6,730	4,391	4,615	2,339	(224)
Total Net Pension	**33,821**	**33,793**	**36,098**	**28**	**(2,305)**

Cash increased by 39% due to the ROP subsidy of $500k and returnable subsidy of $1.8 million. Accounts receivable increased by 28%. The $6.3 million in the accounts receivable is WWO's electric billings that is owed to EPO. Since September 2017, WWO has not been able to pay its electric bill, bloating the accounts receivable of the electric operations and impacting EPO's cash flow.

Chart 7: EPO Accounts Receivable and WWO Electric Bill



Accounts receivable of EPO increased by 28%, part of this is the electric bill of WWO that was unpaid since September 2017.

WATER AND WASTEWATER OPERATIONS

RPPL 9-4 or the Merger Act declared the merger of water and wastewater operations into the electric power operations, so the birth of the new PPUC. The main water treatment plant is located at Ngeruluobel, Airai state. The Koror-Airai Water Treatment Plant (KAWTP) feeds the five (5) water storage tanks in Airai, Ngermid, Ngerkesoaol, Ngerkebesang, and Malakal.

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

Water Storage Tanks	Capacity	Coverage
Airai	1M gallons	Whole state of Airai from Ordomel, Ngetkib to KB Bridge Airai side, Ochelochel
Ngermid	1M gallons	Ngesaol, Ngermid, Ngerias, Ngerbodel, Ngerchemai, and Iyebukel
Ngerkesoaol	1M gallons	Ngerkesoaol, 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
Ngerkebesang	.5M gallons	Ngerkebesang, PPR, Echang, Echol all the way to Meyuns elementary school area
Malakal	.25M gallons	all Malakal area to Minatobashi Bridge

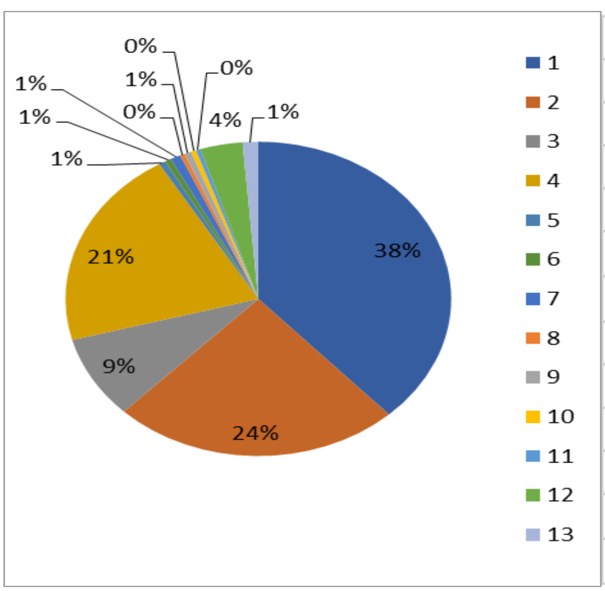
The prime objective of PPUC-Water and Wastewater Operations (WWO) as mandated by law is that full cost recovery is achieved. Thus, a table of tariff rate was established to take effect April 2015. These rates were designed for PPUC in order to ensure achievement of full cost recovery and to fulfill the 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.

The table below shows the tariff rate the PPUC has been utilizing since FY 2017 through FY 2020.

Effective February 1, 2017		
WATER RATES		
KOROR/AIRAI- WATER & SEWER RATES		
Residential Rate		
WATER RATES TIER1	<5000/GALS	$1.59/1000gals
WATER RATES TIER2	>5001	$6.49/1000gals
SEWER RATES	<5000/GALS	$0.39/1000gals
SEWER RATES	>5001	$5.94/1000gals
Commercial, Rop, and Government		
WATER RATES	0 & ABOVE	$6.49/1000gals
SEWER RATES	0 & ABOVE	$5.94/1000gals
BABELDAOB & YOULDAOB		
Residential Rate		
WATER RATES TIER1	<5000/GALS	$1.06/1000gals
WATER RATES TIER2	>5001	$1.28/1000gals
SEWER RATES	0 & ABOVE	$0.30/1000gals
Commercial, Rop, and Government		
WATER RATES	0 & ABOVE	$1.28/1000gals
SEWER RATES	0 & ABOVE	$1.28/1000gals

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

Chart 8: Total Operating Expenses of WWO



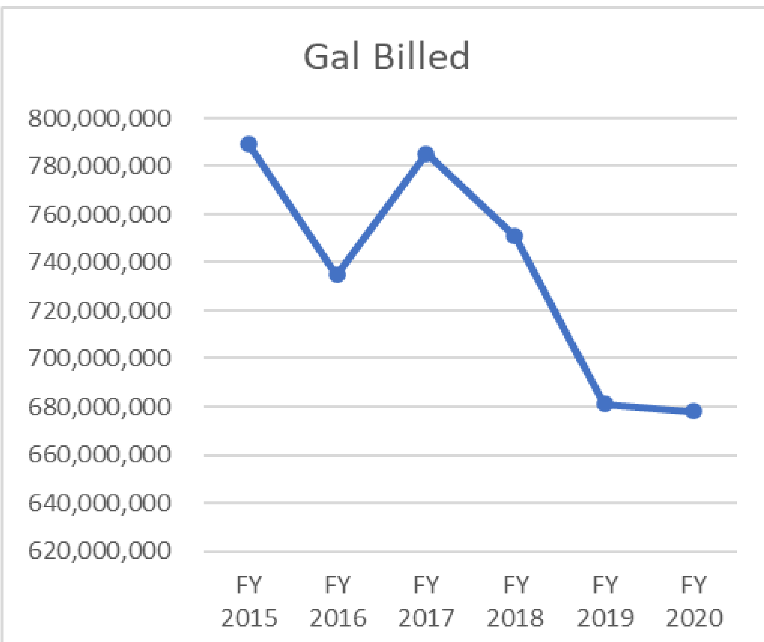
1	Personnel
2	Depreciation
3	R&M
4	Utilities
5	Small Tools & Equipment
6	Professional Services
7	Gas and Oil
8	Insurance
9	Supplies
10	Communication
11	Rent
12	WaterTreatment Chemicals
13	Others

The chart shows that the largest percentage of expenses goes to personnel, depreciation and services. Services include utility expenses. WWO's power consumption is approximately $2 million per annum. As discussed in EPO's financial highlights, WWO's inability to pay its power consumption has dramatically increased its accounts payable to $6.3 million and thus affected EPO's cash requirement in covering its operating expenses.

Table 10: Gallons Billed and No. of Customers

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Gal Billed	789,461,704	734,727,414	785,204,306	750,838,283	681,143,602	678,084,623
No. of Customer	4,572	4,598	4,671	4,765	4,848	5,045

Chart 10: Gallons Billed



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

The JICA project constructed in FY 2018 aimed to reduce NRW to 37% by FY 2019. Based on the gallons billed, it has 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. Almost 87% of customers have had connected to the new water pipeline. Approximately 13%, mostly from Meyuns, Ngermid, Ngerchemai, Iyebukel, Ngesaol, and Ngerkebesang are still not connected to the new water pipeline. The connection was delayed since all capital improvements have been put on hold since FY 2018 due to budget constraints. WWO has been operating at a loss since the merger in FY 2013. Please note that in FY 2015, the new WWO tariff was implemented and there was a significant decrease in the net losses from FY 2015 to FY 2017.

The Table 11 below shows the audited statements of revenues and expenses of WWO before capital contributions from FY 2013 to FY 2020.

WWO	**FY 2013 (Audited)**	**FY 2014 (Audited)**	**FY 2015 (Audited)**	**FY 2016 (Audited)**
Net Operating Revenues	$ 384,147.00	$ 2,255,543.00	$ 3,073,272.00	$ 4,487,362.00
Operating Expenses	$ 2,382,702.00	$ 7,174,998.00	$ 6,857,707.00	$ 7,621,461.00
Operating Income/Loss	$ (1,998,555.00)	$ (4,919,455.00)	$ (3,784,435.00)	$ (3,134,099.00)

		PROHIBITION		
WWO	**FY 2017 (Audited)**	**FY 2018 (Audited)**	**FY 2019 (Audited)**	**FY 2020 (Audited)**
Net Operating Revenues	$ 5,570,725.00	$ 5,402,622.00	$ 5,107,150.00	$ 4,614,306.00
Operating Expenses	$ 7,493,938.00	$ 9,006,505.00	$ 9,236,667.00	$ 9,287,587.00
Operating Income/Loss	$ (1,923,213.00)	$ (3,603,883.00)	$ (4,129,517.00)	$ (4,673,281.00)
				COVID-19 Pandemic

Significant improvements are needed to upgrade the systems' capacity for 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 2021. 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 covers the Koror area.

Early June 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. Subprogram 2 will cover the water and wastewater operations to improve WWO's treatment and distribution facilities. If quality of water is improving, PPUC now can charge the actual tariff in parts of Babeldaob, Youldaob and Outlying States. Part of this ADB-PBL is the tariff study for the WWO, which is expected to be completed in FY 2021-2022. Thus, will improve the revenue and operations of the WWO.

WWO Financial Highlights

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

	(Dollars in Thousands)				
WATER AND WASTEWATER OPERATIONS	**SEPT. 30, 2020**	**SEPT. 30, 2019**	**SEPT. 30, 2018**	**INC/(DEC) 2020**	**INC/(DEC) 2019**
Revenues, Expenses, and Changes in Net Position					
Operating Revenues					
Water and Wastewater	4,572	4,815	5,616	(243)	(801)
Others	122	348	374	(226)	(26)
Prov'n for Bad Debts	(80)	(56)	(588)	(24)	532
Non-Operating Revenue/(Expenses)	1,167	(2,107)	1,564	3,274	(3,671)
Total Revenue	**5,781**	**3,000**	**6,966**	**2,781**	**(3,966)**
Operating Expenses					
Water and Wastewater	5,792	5,686	5,987	106	(301)
Depreciation	2,239	2,305	1,848	(66)	457
Administration	1,256	1,245	1,171	11	74
Total Operating Expenses	**9,287**	**9,236**	**9,006**	**51**	**230**
Capital Contributions	167	672	5,194	(505)	(4,522)
Change in Net Position	(3,339)	(5,564)	3,154	2,225	(8,718)
Beginning Net Position	14,588	20,152	16,998	(5,564)	3,154
Ending Net Position	**11,249**	**14,588**	**20,152**	**(3,339)**	**(5,564)**

Operating revenue decreased by 5.0% and gallons billed decreased by 0.4%. Factors that contributed to this decrease are: prohibition to increase the tariff, closing of most commercial establishments due to pandemic and suspension of disconnection and late fees. All of these occurred in the 3rd quarter of FY 2020. PPUC, in its effort to contribute support for the decline in the tourism industry and closing of most commercial establishments suspended its disconnection and late fee charges.

Table 13: WWO Statements of Net Position

	(Dollars in Thousands)				
WATER AND WASTEWATER OPERATIONS	**SEPT. 30, 2020**	**SEPT. 30, 2019**	**SEPT. 30, 2018**	**INC/(DEC) 2020**	**INC/(DEC) 2019**
Statement of Net Position					
Current Assets	5,062	4,310	4,602	752	(292)
Other Assets	-	168	129	(168)	39
Net Utility Plant	43,321	43,593	41,457	(272)	2,136
Total Assets	48,383	48,071	46,188	312	1,883
Deferred Outflows from Pension	4,004	2,496	2,175	1,508	321
	52,387	**50,567**	**48,363**	**1,820**	**2,204**
Current Liabilities	9,188	8,510	6,922	678	1,588
Other Liabilities	20,117	17,947	12,676	2,170	5,271
Net Pension Liability	10,421	8,065	7,389	2,356	676
Total Liabilities	39,726	34,522	26,987	5,204	7,535
Deferred Inflows from Pension	1,412	1,456	1,224	(44)	232
	41,138	**35,978**	**28,211**	**5,160**	**7,767**
Invested in Capital Assets	22,051	24,714	28,086	(2,663)	(3,372)
Unrestricted	(10,802)	(10,125)	(7,934)	(677)	(2,191)
Total Net Pension	**11,249**	**14,589**	**20,152**	**(3,340)**	**(5,563)**

Cash increased by 18% due to the ROP subsidy of $1.6 million. Accounts receivable increased by 37% due to suspension of late fees and disconnection. Current liabilities increased by 8.0% due to additional current portion of KASP Loan and unpaid electric bill of WWO amounting to $6.3 million. WWO has not been able to pay its electric bill due to cash flow constraints of not generating enough cash revenue from its tariff. Non-current/other liabilities increased by 12% due to the progress of KASP where the liability is recorded upon disbursement of the costs of the project.

Chart 11. WWO Accounts Receivable

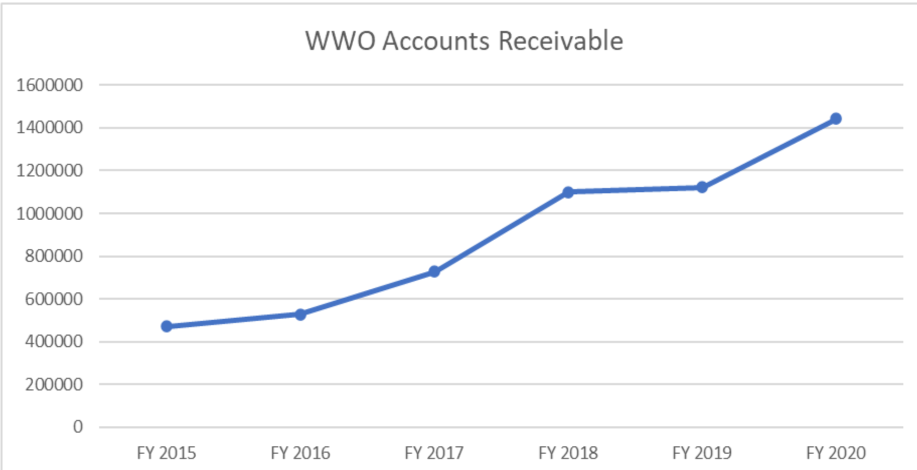
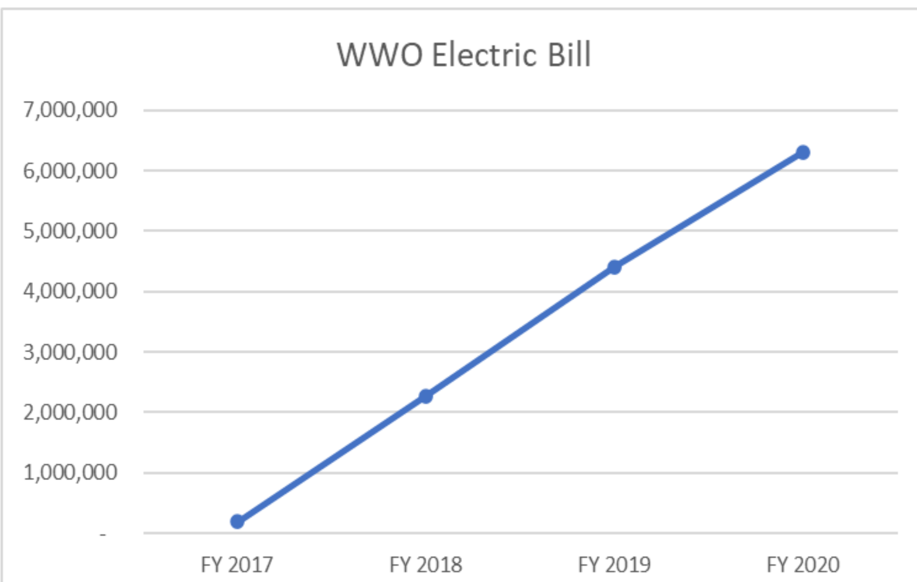


Chart 12: WWO Payables (Electric Bills)



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, 2018 through 2020. The total investment in capital assets amounted to $73 million (net of accumulated depreciation). The overall corporate capital assets decreased by $2,774,000.

Table 14: PPUC's Capital Assets

CAPITAL ASSETS:	Sept 30, 2020	Sept 30, 2019	Sept 30, 2018	Increase (Decrease) 2020	Increase (Decrease) 2019
Electric Plants:					
Electric Plants, Koror/Aimeliik	40,679	40,630	40,630	49	-
Electric Plants, Outlying States	2,287	2,238	2,141	49	97
Total Electric Plants	42,966	42,868	42,771	98	97
Accumulated Depreciation	(23,950)	(22,133)	(20,306)	(1,817)	(1,827)
Net Electric Plant	19,016	20,735	22,465	(1,719)	(1,730)
Transmission & Distribution System					
T&D System, Koror/Aimeliik	18,819	18,913	18,521	(94)	392
T&D System, Outlying States	2,208	2,120	2,120	88	-
Total T&D System	21,027	21,033	20,641	(6)	392
Accumulated Depreciation	(14,112)	(13,575)	(12,940)	(537)	(635)
Net T&D System	6,915	7,458	7,701	(543)	(243)
Water & Sewer Systems					
Water Infrastructure	40,105	40,096	40,025	9	71
Sewer Infrastructure	20,705	20,706	20,688	(1)	18
Total Water & Sewer Systems	60,810	60,802	60,713	8	89
Accumulated Depreciation	(40,965)	(38,919)	(36,803)	(2,046)	(2,116)
Net Water & Sewer Systems	19,845	21,883	23,910	(2,038)	(2,027)
Water & Sewer Transmission & Distribution System					
WWO T&D System, Koror/Babeldaob	1,381	1,381	1,381	-	-
Total WWO T&D System	1,381	1,381	1,381	-	-
Accumulated Depreciation	(294)	(220)	(146)	(74)	(74)
Net WWO T&D System	1,087	1,161	1,235	(74)	(74)
Administrative Equipment					
Buildings	3,169	3,169	3,169	-	-
Heavy Equipment & Vehicles	3,259	3,249	3,055	10	194
Tools & Maint Equipment	550	584	438	(34)	146
Computers & Office Equipment	1,424	1,436	1,443	(12)	(7)
Total Admin Equipment	8,402	8,438	8,105	(36)	333
Accumulated Depreciation	(5,198)	(4,736)	(4,048)	(462)	(688)
Net Admin Equipment	3,204	3,702	4,057	(498)	(355)
Total Capital Projects in Progress	23,130	21,032	16,950	2,098	4,082
TOTAL	$ 73,197	$ 75,971	$ 76,318	(2,774)	(347)

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

Long-Term Debt

The international and local loans were acquired to purchase additional generation capacity and to finance major repairs and generation auxiliary equipment. The long-term soft loan secured by the ROP from Asian Development Bank was subsequently loaned to PPUC as per subsidiary loan agreements dated March 28, 2014. Proceeds are used to upgrade the Koror sewerage system and to construct a wastewater treatment plant. The ADB loan amount as of September 30, 2020 reflects the total amount of the loan proceeds withdrawn and is recognized as long-term debt in the final statements.
The table below shows the outstanding loans of PPUC:

Outstanding Loans

	(Dollars in thousands)			
		Original		Sept 30, 2020
EPO International Loan (MEGA)	$	7,000	$	2,600
EPO Local Loan (NDBP)	$	3,000	$	1,310
WWO International Loan (ADB 3060 & 3061)	$	28,671	$	21,270
Returnable ROP Subsidy (RRPL 10-53)	$	1,800	$	1,800
TOTAL	$	40,471	$	26,980

***Note:** In addition to the above loans, PPUC Power received a $1.8 million subsidy from the national government (ROP) on April 9, 2020 for operations and improvements. Per RPPL 10-53, the subsidy shall be reimbursed once concessionary financing for operations and capital investement requirements is secured.*

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

Contracts amounting to $26.4 million have been awarded as shown in the table 16 below:

Table 16: KASP Contractors

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	$	5,138
Pacific Engineering Projects, Ltd.	ICB-03 - Malakal Sewer Treatment Plant Upgrade	$	11,150
Egis Eau	Project Implementation Assistance Consultants (PIAC)	$	5,246
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	$	40
Williams Construction Company	Ernguul Park Public Restroom	$	96
VMJ Construction Company	NCB-03 - Construction of Washout Chambers on New SPS-1 Force Main	$	198
		$	26,405

CASH POSITION

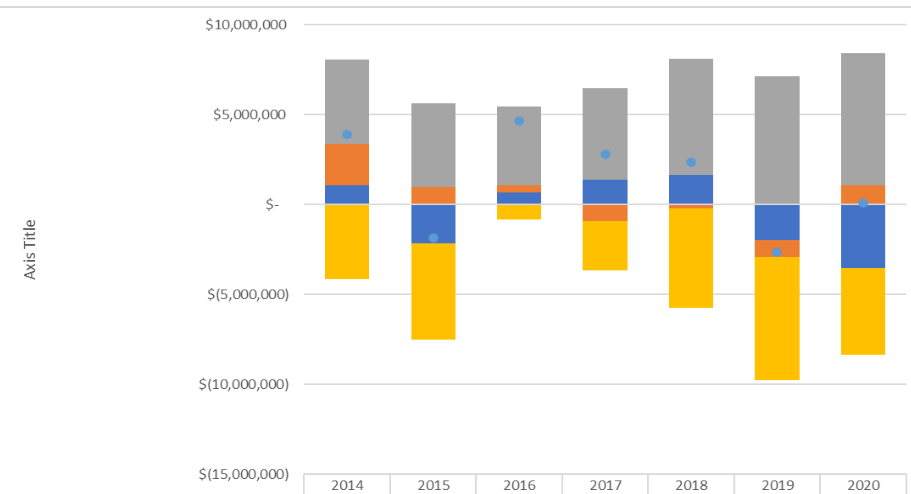
PPUC financial statements are prepared on an "accrual" basis, which recognizes revenue and expenditure when they occur, and not when cash is received or paid. In addition, accrual accounting recognizes certain non-cash items, such as depreciation and provision for future payments, which have no immediate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

The chart below shows the net operating cash surplus or deficit for the Corporation from FY 2014 through FY 2020. This cash result arises from a variety of factors. The chart attempts to show the impact of those factors. In most years, the Corporation has recorded a cash surplus. That cash surplus has mainly arisen from provisions made for depreciation, which is an expense that recognizes the cost associated with the reduction in the value of assets used in operations, 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 increased again in FY 2020 due to the decrease in fuel costs brought by the pandemic. The major factor negatively impacting the cash result has been the operating loss recorded in each of the years especially in FY 2018 to FY 2020 where PPUC was prohibited from increasing its tariff. Of only minor impact has been the change in operating assets in each of the years.

The table 17 below shows the net operating cash surplus



	2014	2015	2016	2017	2018	2019	2020
Operating Profit (loss)	$(4,150,554)	$(5,342,132)	$(831,893)	$(2,742,600)	$(5,537,206)	$(6,864,563)	(4,794,874.0
Depr'n and Non-Cash Provisions	$4,686,891	$4,663,114	$4,385,834	$5,087,798	$6,455,008	$7,134,771	7,385,960.00
Inc (Dec) in Assets	$2,279,245	$986,778	$425,487	$(922,797)	$(219,226)	$(948,077)	1,062,079.00
Inc (Dec) in Liabilities	$1,089,840	$(2,156,458)	$665,187	$1,381,221	$1,657,087	$(1,968,166)	(3,534,083.0
Net Cash Surplus (Def) from Operations	$3,905,422	$(1,848,698)	$4,644,615	$2,803,622	$2,355,663	$(2,646,035)	119,082.00

COVID-19 Pandemic

In the early months of CY 2020, the world was shocked by the emergence and wide spread of the global pandemic called COVID-19 caused by severe acute respiratory syndrome coronavirus 2. It has 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 to the global economy. Governments struggle with new lockdown measures to tackle the spread of the virus. Closing of portals and canceling of flights has been one of the major steps the national government has undertaken, and that is true with the Republic of Palau, having known to be covid-free. However, the tourism industry was affected. Several commercial establishments stopped or cut operations to reduce costs and this includes utility consumption. In PPUC's effort to respond to the global pandemic concern, it suspended the disconnection and charging of late fees. However, this caused delays in payment of bills and increased defaults despite collections effort. Due to no flights and slow shipments, most of the procurements were delayed. These procurements include installations of some major assets and major overhauls that are essential to the operations of PPUC. Managers and staff redoubled their efforts to minimize the effects of the delays. One of the major impacts of this pandemic is the drastic decrease in the fuel price. It may have reduced the net loss in the current year, but is not really considered a gain since this will be returned to the customers by FY 2021 through the AFPAC.

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

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 electric, water and wastewater services.

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

Both electrical and water/wastewater services require continued 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.

Current tariff rates are not adequate to meet this obligation. RPPL 10-19 and 10-26 have prohibited PPUC in raising its tariff since 2018. Moreover, they have extended the prohibition to October 1, 2020 in accordance with RPPL 10-42. PPUC cannot adjust its tariff base on a "cost-recovery"; it has been using the same tariff rates since January 2018 for EPO and October 2017 for WWO. Freezing the already inadequate tariff rates imposes a compounding financial burden on the Corporation and is contrary to the spirit and intent of the legal requirements on the Corporation in RPPL 9-04 and PEA's Tariff Regulations.

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 this FY 2020 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 financial operations and to demonstrate PPUC's accountability for the money it receives. Management Discussion and Analysis for the year ended September 30, 2019 is set forth in PPUC's report on the audit of financial statements which is dated July 31, 2020.

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

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

Statements of Net Position
September 30, 2020 and 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2020	2019
Utility plant:		
Depreciable utility plant, net	$ 50,066,999	$ 54,939,135
Non-depreciable utility plant	23,129,791	21,031,725
Net utility plant	73,196,790	75,970,860
Current assets:		
Cash and cash equivalents	11,716,991	8,768,581
Receivables:		
Trade	4,474,785	4,151,564
Affiliate	731,132	754,714
Current portion of contracts	87,071	100,860
Other	44,474	34,204
	5,337,462	5,041,342
Less allowance for doubtful accounts	(2,111,223)	(1,964,072)
Net receivables	3,226,239	3,077,270
Prepaid expenses	417,239	310,454
Inventory, net	7,601,129	9,025,385
Total current assets	22,961,598	21,181,690
Other non-current assets:		
Contracts receivable, net of current portion	234,810	280,287
Total assets	96,393,198	97,432,837
Deferred outflows of resources from pension	9,612,349	6,756,793
	$ 106,005,547	$ 104,189,630

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2020	2019
Net position:		
Net investment in utility plant	$ 49,142,790	$ 54,115,690
Unrestricted	(4,072,510)	(5,734,419)
Total net position	45,070,280	48,381,271
Commitments and contingencies		
Current liabilities:		
Current portion of long-term debt	1,797,161	1,558,289
Accounts payable	2,848,594	5,799,435
Accrued expenses	1,057,016	1,151,129
Advances from the Republic of Palau	482,402	741,543
Customer deposits	1,155,311	1,170,307
Total current liabilities	7,340,484	10,420,703
Long-term debt, net of current portion	23,383,048	21,856,881
Due to Republic of Palau	1,800,000	-
Net pension liability	24,776,269	19,976,072
Total liabilities	57,299,801	52,253,656
Deferred inflows of resources from pension	3,635,466	3,554,703
	$ 106,005,547	$ 104,189,630

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Operating revenues:		
Power	$ 19,763,518	$ 19,811,131
Water	2,831,051	3,050,948
Wastewater	1,673,810	1,746,673
Other	801,972	1,281,991
Total operating revenues	25,070,351	25,890,743
Provision for uncollectible receivables	(151,900)	(322,863)
Net operating revenues	24,918,451	25,567,880
Operating expenses:		
Generation - fuel	11,137,098	14,624,335
Depreciation	5,208,657	5,385,231
Generation - other cost	3,547,080	3,477,620
Administration	3,113,940	2,997,307
Distribution and transmission	1,915,350	1,595,114
Engineering services	698,321	616,655
Renewable energy	195,477	190,785
Water operations	2,848,879	2,661,418
Wastewater operations	1,048,523	883,978
Total operating expenses	29,713,325	32,432,443
Operating loss	(4,794,874)	(6,864,563)
Nonoperating revenues (expenses):		
Operating subsidies from the Republic of Palau	2,100,000	500,000
Grants	45,000	45,000
Interest income	1,752	2,385
Gain on disposal of utility plant	16,938	-
Interest expense	(617,164)	(643,033)
Others	(253,585)	(1,479,181)
Total nonoperating revenues (expenses), net	1,292,941	(1,574,829)
Loss before capital contributions	(3,501,933)	(8,439,392)
Capital contributions:		
Capital contributions from the Republic of Palau	190,942	844,597
Change in net position	(3,310,991)	(7,869,142)
Net position at beginning of year	48,381,271	56,250,413
Net position at end of year	$ 45,070,280	$ 48,381,271

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	$ 22,706,638	$ 23,875,253
Cash payments to suppliers for goods and services	(16,161,714)	(20,431,913)
Cash payments to employees for services	(6,425,842)	(6,089,375)
Net cash provided by (used in) operating activities	119,082	(2,646,035)
Cash flows from investing activities:		
Interest income	1,752	2,385
Cash flows from non-capital financing activities:		
Appropriations received from the Republic of Palau	2,100,000	500,000
Cash received from grantor agencies	45,000	45,000
Other non-capital activities	(253,585)	(827,355)
Net cash provided by (used in) non-capital financing activities	1,891,415	(282,355)
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	3,036,848	6,179,884
Principal payments on long-term debt	(1,271,809)	(1,239,437)
Interest paid on long-term debt	(348,210)	(648,428)
Appropriations received from the Republic of Palau	2,405,909	672,112
Proceeds from reimbursable grant from the Republic of Palau	1,800,000	-
(Repayment of) advances from the Republic of Palau	(30,000)	170,000
Acquisition of utility plant	(2,417,649)	(5,037,914)
Net cash provided by capital and related financing activities	3,175,089	96,217
Net change in cash and cash equivalents	5,187,338	(2,829,788)
Cash and cash equivalents at beginning of year	8,768,581	11,598,369
Cash and cash equivalents at end of year	$ 13,955,919	$ 8,768,581
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	$ (4,794,874)	$ (6,864,563)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	5,208,657	5,385,231
Provision for uncollectible receivables	151,900	322,863
Pension expense	2,025,403	1,426,677
(Increase) decrease in assets:		
Receivables:		
Trade	(327,970)	(239,659)
Affiliate	23,582	(145,792)
Contracts	59,266	50,792
Other	(10,270)	323
Prepaid expenses	(106,785)	197,946
Inventory	1,424,256	(811,687)
Increase (decrease) in liabilities:		
Accounts payable	(2,950,841)	(1,875,645)
Accrued expenses	(363,067)	(26,597)
Grant advances from the Republic of Palau	(205,179)	(42,734)
Customer deposits	(14,996)	(23,190)
Net cash provided by (used in) operating activities	$ 119,082	$ (2,646,035)

See accompanying notes to financial statements.

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Accounting Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and time certificates of deposit with original maturities of three months or less and includes an unrestricted sinking fund associated with the loan with a development bank (note 8) with balances of $3.9 million and $3.4 million at September 30, 2020 and 2019, respectively.

Receivables

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

(2) Summary of Significant Accounting Policies, Continued

Inventory

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

Utility Plant

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

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

No capitalized interest was recognized during the years ended September 30, 2020 and 2019 due to early adoption of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.*

Net Position

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

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

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

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

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

Revenue

Sales of electricity, water and wastewater services are recorded as billed to customers on a monthly cycle billing basis. For electricity billings, PPUC factors a variable fuel surcharge into its monthly billings to recover the costs of fuel. Increases in the variable fuel charge have been limited due to passage of RPPL 10-42 in September 2019 (note 12). At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Unbilled revenues at September 30, 2020 and 2019 were $924,084 and $1,130,774, respectively.

(2) Summary of Significant Accounting Policies, Continued

Operating and Nonoperating Revenues and Expenses

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

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

Pensions

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Compensated Absences

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

Taxes

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

The implementation of these statements did not have a material effect on PPUC's financial statements.

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos: 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements, except for Statement No. 89 which was implemented October 1, 2018.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

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

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements Nos. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

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

(3) Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, PPUC’s deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government’s name. PPUC does not have a deposit policy for custodial credit risk.

As of September 30, 2020 and 2019, cash and cash equivalents were $11,716,991 and $8,768,581, respectively, and the corresponding bank balances were $12,196,943 and $9,078,579, respectively, that are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020 and 2019, bank deposits of $750,000 were FDIC insured. PPUC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage and deposits in financial institutions not subject to FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

(4) Grants

PPUC is a subrecipient of federal grants received by the ROP from a U.S. federal agency. In May 2015, the Japan Government extended a grant to the Government of the ROP for a project to improve the water supply system in Koror and Airai areas for up to 1,843,000,000 Yen or approximately $17 million. As part of the grant, PPUC and the ROP entered into agreements with a consultant and a contractor to execute the project. The project was completed in 2019.

PPUC received grants of $45,000 for each of the years ended September 30, 2020 and 2019 from the U.S. Federal Government.

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

(5) Receivable from a Local Bank

At September 30, 2020 and 2019, 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, 2020 and 2019.

(6) Inventory

Inventory at September 30, 2020 and 2019, consists of the following:

	2020	2019
Generation parts and supplies	$ 6,329,697	$ 6,945,659
Fuel	624,367	1,540,543
Lubricants	70,072	50,707
Chemicals	370,809	203,090
Water distribution parts and supplies	741,016	815,824
	8,135,961	9,555,823
Allowance for slow moving and obsolete inventory	(534,832)	(530,438)
	$ 7,601,129	$ 9,025,385

Included in the allowance for slow moving and obsolete inventory was $497,841 at September 30, 2020 and 2019 provided for generation parts and supplies inventory maintained in the Aimeliik power plant that caught fire in November 2011.

(7) Utility Plant

Utility plant consists of the following detailed balances at September 30, 2020 and 2019:

	Estimated Useful Lives	Balance at October 1, 2019	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2020
Depreciable utility plant:					
Electric plant	3 - 25 years	$ 43,326,063	$ 96,587	$ -	$ 43,422,650
Water system	20 years	41,554,827	8,440	-	41,563,267
Sewer system	20 years	20,705,905	-	-	20,705,905
General support equipment	2 - 30 years	28,243,385	231,494	(269,923)	28,204,956
Administrative equipment	2 - 10 years	712,015	-	(6,420)	705,595
		134,542,195	336,521	(276,343)	134,602,373
Less accumulated depreciation		(79,603,060)	(5,208,657)	276,343	(84,535,374)
		54,939,135	(4,872,136)	-	50,066,999
Non-depreciable utility plant:					
Construction in progress		21,031,725	3,749,532	(1,651,466)	23,129,791
		$ 75,970,860	$ (1,122,604)	$ (1,651,466)	$ 73,196,790

	Estimated Useful Lives	Balance at October 1, 2018	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2019
Depreciable utility plant:					
Electric plant	3 - 25 years	$ 43,227,832	$ 139,395	$ (41,164)	$ 43,326,063
Water system	20 years	41,483,327	71,500	-	41,554,827
Sewer system	20 years	20,688,409	17,496	-	20,705,905
General support equipment	2 - 30 years	27,511,194	733,855	(1,664)	28,243,385
Administrative equipment	2 - 10 years	717,928	-	(5,913)	712,015
		133,628,690	962,246	(48,741)	134,542,195
Less accumulated depreciation		(74,260,657)	(5,385,231)	42,828	(79,603,060)
		59,368,033	(4,422,985)	(5,913)	54,939,135
Non-depreciable utility plant:					
Construction in progress		16,950,144	4,843,619	(762,038)	21,031,725
		$ 76,318,177	$ 420,634	$ (767,951)	$ 75,970,860

(8) Long-Term Debt

A. Long-Term Debt

	2020	2019
On September 4, 2006, PPUC entered into a loan with a foreign bank not to exceed $7,000,000 with interest at 3.5% per annum, due on December 11, 2026, to finance the purchase of portable generators, a crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators. The loan is guaranteed by the Republic of Palau and is to be repaid in thirty-five consecutive semi-annual principal installments of $200,000 plus interest; the first installment being repaid on the last day of the thirty-sixth month from the date of the initial advance and thereafter semi-annually on the last day of each successive six-month period, until fully paid.	$2,600,000	$ 3,000,000
On April 21, 2010, PPUC entered into a loan with a development bank, an affiliated organization, for $3,000,000 to finance the purchase of two generator sets. The loan is due on April 21, 2025 and is collateralized by the generator sets inclusive of auxiliary equipment. The loan bears interest of 7.5% per annum and is to be repaid monthly beginning January 30, 2011 in principal and interest payments of $27,810. Payment of interest during the eight month grace period was spread over twelve months with an equal payment of $12,500 per month beginning January 30, 2011.	1,310,348	1,536,139
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 and bears interest equal to the sum of LIBOR plus 0.60% and a maturity premium of 0.10%. Principal is to be repaid semi-annually beginning April 1, 2018 at 2.5% of the total principal amount outstanding on each payment date. The second loan is for 1,258,000 Special Drawing Rights for twenty years with grace period and bears interest at 1% per annum during the period prior to the first principal payment date and 1.5% per annum thereafter. Principal is to be repaid in semi-annual installments of $37,040 beginning April 1, 2021. The loans are guaranteed by the Republic of Palau.	21,269,861	18,879,031
Total long-term debt	25,180,209	23,415,170
Less current maturities	(1,797,161)	(1,558,289)
	$ 23,383,048	$ 21,856,881

(8) Long-Term Debt, Continued

A. Long-Term Debt , Continued

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

Year Ending September 30,	Principal	Interest	Total
2021	$ 1,797,161	$ 512,273	$ 2,309,434
2022	1,852,969	475,758	2,328,727
2023	1,873,364	422,029	2,295,393
2024	1,895,251	367,721	2,262,972
2025	1,806,016	310,793	2,116,809
2026 - 2030	6,551,294	1,113,862	7,665,156
2031 - 2035	5,951,294	620,305	6,571,599
2036 - 2039	3,452,860	137,213	3,590,073
	$ 25,180,209	$ 3,959,954	$ 29,140,163

Movements in long-term bank debt for the years ended September 30, 2020 and 2019, are as follows:

	Balance at October 1, 2019	Additions	Repayments	Balance at September 30, 2020	Balance Due in One Year
Long-term debt	$ 23,415,170	$ 3,036,848	$ (1,271,809)	$ 25,180,209	$ 1,797,161

	Balance at October 1, 2018	Additions	Repayments	Balance at September 30, 2019	Balance Due in One Year
Long-term debt	$ 18,516,690	$ 6,137,917	$ (1,239,437)	$ 23,415,170	$ 1,558,289

Debt Covenants

The loan with a foreign bank include 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 a development bank requires PPUC to provide and maintain insurance in such form and covering risks and hazards and for such periods of time as the development bank may reasonably require; promptly advise the development bank in writing of all litigation involving the entity and mortgaged property, and of all complaints and charges made by any government agencies; comply with all laws and regulations of the ROP; pay when due and payable all tax assessments, and government charges levied or assessed against the entity and mortgaged property; furnish the lender the information about the financial affairs; maintain accounts receivable to current asset ratio of not more than 25%; and create a Sinking Fund for engine/generator replacement/maintenance with a contribution of a minimum of $250K per annum starting on FY 2011.

(8) Long-Term Debt, Continued

A. Long-Term Debt , Continued

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

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

Management is of the opinion that PPUC has complied with the covenants for the years ended September 30, 2020 and 2019.

B. Other Long-Term Liabilities

Changes in other long-term liabilities in fiscal years 2020 and 2019 were as follows:

	Balance at October 1, 2019	Additions	Repayments	Balance at September 30, 2020	Balance Due in One Year
Due to Republic of Palau	$ -	$ 1,800,000	$ -	$ 1,800,000	$ -
Net pension liability	19,976,072	4,800,197	-	24,776,269	-
	$ 19,976,072	$ 6,600,197	$ -	$ 26,576,269	$ -

	Balance at October 1, 2018	Additions	Repayments	Balance at September 30, 2019	Balance Due in One Year
Net pension liability	$ 18,054,380	$ 1,921,692	$ -	$ 19,976,072	$ -

(9) Pension Plan

A. General Information About the Pension Plan:

Plan Description:

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

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

Membership:

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

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

Summary of the Principal Provisions of the Plan:

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

Eligibility to Participate:

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

Service:

Vesting Service: Includes membership service and prior service credit.

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

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Service, Continued:

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

Pension Benefits:

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

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

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

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued:

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

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:

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

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

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

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

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued:

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

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

- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

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

Member Contributions:

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

Employer and Other Contributions:

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

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Employer and Other Contributions, Continued:

PPUC contributed $299,877, $284,837 and $276,420 to the Fund during the fiscal years 2020, 2019 and 2018, respectively, which was equal to the required statutory contributions for the respective years then ended.

Actuarial Assumptions:

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

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method
Amortization Method:	Level dollar, open with remaining amortization period of 30 years
Asset Valuation Method:	Market Value of Assets
Investment Income:	6.74% per year, net of investment expenses, including price inflation
Inflation:	2.5%
Interest on Member Contributions:	5.0% per year
Salary Increase:	3.0% per year
Expenses:	$300,000 each year
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

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued:

Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor
Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.
Duty vs Non-duty related disability:	100% Duty related
Refund of Contributions:	80% of terminated vested members elect a refund of contributions
Final Average Earnings:	Deferred vested members missing data for their final average earnings are assumed to have earned the average amount of current deferred vested members.
Benefits:	Retirees and beneficiaries missing data for their monthly benefit amount are assumed to receive the average benefit of current retirees or beneficiaries, respectively.

Investment Rate of Return:

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

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

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

Discount Rate:

The discount rate used to measure the total pension liability was 2.85% at the current measurement date and 4.16% at the prior measurement date. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2024 for the 2019 measurement date. For years on or after 2024, a discount rate of 2.81% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index Rate.

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

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

The following presents PPUC's proportionate share of the net pension liability of the Fund as of September 30, 2019, calculated using the discount rate of 2.85% as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.85%) or 1.00% higher (3.85%) from the current rate.

	1% Decrease 1.85%	Current Single Discount Rate Assumption 2.85%	1% Increase 3.85%
EPO	$ 16,700,049	$ 14,354,796	$ 12,414,812
WWO	12,124,108	10,421,473	9,013,059
	$ 28,914,157	$ 24,776,269	$ 21,427,871

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

Pension Liability:

As of September 30, 2020 and 2019, 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
2020:		
EPO	$ 14,354,796	4.65%
WWO	10,421,473	3.38%
	$ 24,776,269	
2019:		
EPO	$ 11,911,433	4.75%
WWO	8,064,639	3.21%
	$ 19,976,072	

Pension Expense:

For the years ended September 30, 2020 and 2019, PPUC recognized pension expense as follows:

	2020	2019
EPO	$ 1,221,119	$ 1,010,262
WWO	804,284	703,872
	$ 2,025,403	$ 1,714,134

(9) Pension Plan, Continued

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

Deferred Outflows and Inflows of Resources:

At September 30, 2020 and 2019, PPUC reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
EPO:				
Changes of assumptions	$ 2,979,085	$ 1,308,658	$ 1,065,012	$ 1,644,128
Net difference between projected and actual earnings on pension plan investments	39,922	34,075	33,904	51,906
Difference between expected and actual experience	729,995	559,630	939,326	177,869
Contributions subsequent to the measurement date	168,989	-	158,096	-
Changes in proportion and difference between EPO contributions and proportionate share of contributions	1,689,965	320,733	2,064,642	224,461
	5,607,956	2,223,096	4,260,980	2,098,364
WWO:				
Changes of assumptions	2,162,793	950,075	721,067	1,113,157
Net difference between projected and actual earnings on pension plan investments	28,983	24,738	22,955	35,143
Difference between expected and actual experience	529,971	406,287	635,971	120,426
Contributions subsequent to the measurement date	130,888	-	126,742	-
Changes in proportion and difference between WWO contributions and proportionate share of contributions	1,151,758	31,270	989,078	187,613
	4,004,393	1,412,370	2,495,813	1,456,339
	$ 9,612,349	$ 3,635,466	$ 6,756,793	$ 3,554,703

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as 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, 2020 will be recognized in pension expense as follows:

Year Ending September 30,	
EPO:	
2021	$ 683,884
2022	680,011
2023	690,896
2024	517,762
2025	358,096
Thereafter	285,222
	3,215,871

(9) Pension Plan, Continued

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

Deferred Outflows and Inflows of Resources, Continued:

WWO:	
2021	501,810
2022	517,633
2023	494,931
2024	346,693
2025	309,723
Thereafter	290,345
	2,461,135
	$ 5,677,006

(10) Related Party Transactions

Sale of Utility Services

Utility services of $6,101,427 and $6,095,772 were rendered to the ROP for the years ended September 30, 2020 and 2019, respectively. PPUC provides utility services to the ROP at the same rates charged to third parties.

Receivables of $547,282 and $570,864 (excluding unbilled receivables of $200,762 and $310,879 as of September 30, 2020 and 2019, respectively) are due from the ROP for utility services as of September 30, 2020 and 2019, respectively, and are included in the receivable from affiliate in the accompanying statements of net position. Of these receivables, $167,525 and $124,776 as of September 30, 2020 and 2019, respectively, have been outstanding for more than ninety days.

Loans from the ROP

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

Due to ROP

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

Subsidies from the ROP

As part of the transfer agreement of the WWO (see note 1), the ROP was to transfer all grants, appropriations and authorized loan proceeds to PPUC to cover WWO operating costs. For the years ended September 30, 2020 and 2019, PPUC recognized $1,600,000 and $0, respectively, of WWO operating subsidies from the ROP.

Due to restriction on PPUC’s ability to increase its electricity tariffs, ROP provided a $500,000 appropriation to help reduce the impact of rising fuel prices in each of the years ended September 30, 2020 and 2019.

(11) Commitments

Lease

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

Fuel Supply

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

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

Capital Commitments

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

(12) Contingencies

Self-Insurance

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

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) Contingencies, Continued

Pension Plan Net Position

The Republic of Palau Civil Service Pension Trust Fund's actuarial valuation has determined that the Fund's fiduciary net position will be negative by 2023 if no changes are made in contributions and/or benefits.

Electric Tariff Restrictions

RPPL 10-42, signed into law in September 2019, restricts PPUC's ability to increase its electricity tariffs to recover increases in fuel costs until October 1, 2020.

Construction Delays

PPUC has $28 million of construction contracts in relation to sanitation projects in Koror and Airai areas. Due to delays in the construction, PPUC was billed for a total of $1.5 million in 2019, included in the nonoperating expenses in the accompanying statement of revenues, expenses and changes in net position, representing opportunity costs lost by the contractor. As construction is still ongoing, additional charges may be billed to PPUC for delays.

(13) Risk Management

PPUC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. PPUC has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed, except for inventory and utility plant. Settled claims from insured risks have not exceeded commercial insurance coverage in the past three years.

(14) Dependency on the Republic of Palau

WWO incurred an operating loss of $4,673,281 and $4,129,517 for the years ended September 30, 2020 and 2019, respectively. PPUC will continue to depend on ROP subsidies until the WWO has achieved a full cost recovery as mandated by the RPPL 9-4. In addition, PPUC is in discussion with the ROP to ease the electric tariff increase restriction (note 12). Management is also reducing costs to essential expenditures.

(15) COVID-19

PPUC's operations have been affected by the recent and on-going outbreak of the coronavirus disease. Governments worldwide implemented actions to restrict travel and economic activities. The ultimate disruption which may be caused by the outbreak is uncertain, therefore, the actual impact on PPUC's business, results of operations, and financial position for fiscal year 2021 and beyond is currently not determinable.

(16) Subsequent Event

In April 2021, Republic of Palau was hit by a typhoon. Estimated damages to the Company's property is assessed at $654,000.

Management has considered subsequent events through October 26, 2021, upon which the financial statements were available to be issued. Except for the matter discussed above, there are no other material subsequent events that would require recognition or disclosure in the financial statements for the year ended September 30, 2020.

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

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

	2020	2019	2018	2017	2016	2015
Total Republic of Palau net pension liability	$ 308,480,463	$ 250,868,784	$ 259,395,005	$ 249,453,960	$ 215,546,176	$ 204,281,232
PPUC's proportionate share of the net pension liability	$ 24,776,269	$ 19,976,072	$ 18,054,380	$ 16,006,220	$ 13,674,468	$ 13,135,896
PPUC's proportion of the net pension liability	8.03%	7.96%	6.96%	6.42%	6.34%	6.43%
PPUC's covered-employee payroll**	$ 4,799,783	$ 4,671,500	$ 4,032,283	$ 3,398,382	$ 3,076,703	$ 3,022,976
PPUC's proportionate share of the net pension liability as percentage of its covered employee payroll	516.20%	427.62%	447.75%	471.00%	444.45%	434.54%
Plan fiduciary net position as a percentage of the total pension liability	8.26%	10.24%	10.18%	10.55%	11.54%	14.01%

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

See Accompanying Independent Auditors' Report.

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

Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$ 1,131,733	$ 1,378,558	$ 1,195,686	$ 925,093	$ 691,501	$ 683,121
Contribution in relation to the actuarially determined contribution	$ 287,987	280,290	241,937	201,110	183,373	178,010
Contribution deficiency	$ 843,746	$ 1,098,268	$ 953,749	$ 723,983	$ 508,128	$ 505,111
PPUC's covered-employee payroll **	$ 4,799,783	$ 4,671,500	$ 4,032,283	$ 3,398,382	$ 3,076,703	$ 3,022,976
Contribution as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	5.92%	5.96%	5.89%

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

See Accompanying Independent Auditors' Report.

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

Combining Statement of Net Position
September 30, 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Utility plant:				
Depreciable utility plant	$ 28,777,015	$ 21,289,984	$ -	$ 50,066,999
Non-depreciable utility plant	1,098,630	22,031,161	-	23,129,791
Net utility plant	29,875,645	43,321,145	-	73,196,790
Current assets:				
Cash and cash equivalents	8,848,892	2,868,099	-	11,716,991
Receivables:				
Trade	2,849,565	1,625,220	-	4,474,785
Affiliate	6,902,332	128,979	(6,300,179)	731,132
Contracts	45,303	41,768	-	87,071
Other	43,926	548	-	44,474
	9,841,126	1,796,515	(6,300,179)	5,337,462
Less allowance for doubtful accounts	(1,180,679)	(930,544)	-	(2,111,223)
Net receivables	8,660,447	865,971	(6,300,179)	3,226,239
Prepaid expenses	325,350	91,889	-	417,239
Inventory, net	6,489,305	1,111,824	-	7,601,129
Total current assets	24,323,994	4,937,783	(6,300,179)	22,961,598
Other non-current assets:				
Contracts receivable, net of current portion	110,709	124,101	-	234,810
Total assets	54,310,348	48,383,029	(6,300,179)	96,393,198
Deferred outflows of resources from pension	5,607,956	4,004,393	-	9,612,349
	$ 59,918,304	$ 52,387,422	$ (6,300,179)	$ 106,005,547

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Net position:				
Net investment in utility plant	$ 27,091,506	$ 22,051,284	$ -	$ 49,142,790
Unrestricted	6,729,542	(10,802,052)	-	(4,072,510)
Total net position	33,821,048	11,249,232	-	45,070,280
Commitments and contingencies				
Current liabilities:				
Current portion of long-term debt	643,784	1,153,377	-	1,797,161
Accounts payable	1,772,959	7,375,814	(6,300,179)	2,848,594
Accrued expenses	556,058	500,958	-	1,057,016
Advances from ROP	482,402	-	-	482,402
Customer deposits	997,597	157,714	-	1,155,311
Total current liabilities	4,452,800	9,187,863	(6,300,179)	7,340,484
Long-term debt, net of current portion	3,266,564	20,116,484	-	23,383,048
Due to Republic of Palau	1,800,000	-	-	1,800,000
Net pension liability	14,354,796	10,421,473	-	24,776,269
Total liabilities	23,874,160	39,725,820	(6,300,179)	57,299,801
Deferred inflows of resources from pension	2,223,096	1,412,370	-	3,635,466
	$ 59,918,304	$ 52,387,422	$ (6,300,179)	$ 106,005,547

See accompanying independent auditors' report.

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

Combining Statement of Revenues, Expenses and Change in Net Position
Year Ended September 30, 2020

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Operating revenues:				
Power	$ 21,677,093	$ -	$ (1,913,575)	$ 19,763,518
Water	-	2,898,394	(67,343)	2,831,051
Wastewater	-	1,673,810	-	1,673,810
Other	679,984	121,988	-	801,972
Total operating revenues	22,357,077	4,694,192	(1,980,918)	25,070,351
Provision for uncollectible receivables	(72,014)	(79,886)		(151,900)
Net operating revenues	22,285,063	4,614,306	(1,980,918)	24,918,451
Operating expenses:				
Generation - fuel	11,137,098	-	-	11,137,098
Depreciation	2,969,729	2,238,928	-	5,208,657
Generation - other cost	3,551,862	-	(4,782)	3,547,080
Administration	1,902,158	1,256,438	(44,656)	3,113,940
Distribution and transmission	1,939,899	-	(24,549)	1,915,350
Engineering services	704,377	-	(6,056)	698,321
Renewable energy	201,533	-	(6,056)	195,477
Water operations	-	4,436,853	(1,587,974)	2,848,879
Wastewater operations	-	1,355,368	(306,845)	1,048,523
Total operating expenses	22,406,656	9,287,587	2,238,928	29,713,325
Operating loss	(121,593)	(4,673,281)	(4,219,846)	(4,794,874)
Nonoperating revenues (expenses):				
Operating subsidies from the Republic of Palau	500,000	1,600,000	-	2,100,000
Grants	26,100	18,900	-	45,000
Interest income	1,309	443	-	1,752
Gain on disposal of assets	16,938	-	-	16,938
Interest expense	(207,062)	(410,102)	-	(617,164)
Others	(211,534)	(42,051)	-	(253,585)
Total nonoperating revenues (expenses), net	125,751	1,167,190	122,867	1,292,941
Income (loss) before capital contributions	4,158	(3,506,091)	(4,096,979)	(3,501,933)
Capital contribution:				
Capital contributions from the Republic of Palau	23,962	166,980	-	190,942
Change in net position	28,120	(3,339,111)	(4,096,979)	(3,310,991)
Net position at beginning of year	33,792,928	14,588,343	-	48,381,271
Net position at end of year	$ 33,821,048	$ 11,249,232	$ (4,096,979)	$ 45,070,280

See accompanying independent auditors' report.

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

Combining Statement of Cash Flows
Year Ended September 30, 2020

	Electric Power Operations		Water and Wastewater Operations	Eliminations	Total
Cash flows from operating activities:					
Cash received from customers	$ 20,180,906		$ 4,506,650	$ (1,980,918)	$ 22,706,638
Cash payments to suppliers for goods and services	(15,270,882)		(2,871,750)	1,980,918	(16,161,714)
Cash payments to employees for services	(3,301,814)		(3,124,028)	-	(6,425,842)
Net cash provided by (used in) operating activities	1,608,210		(1,489,128)	-	119,082
Cash flows from investing activities:					
Interest income	1,309		443	-	1,752
Cash flows from non-capital financing activities:					
Appropriations received from the Republic of Palau	500,000		1,600,000	-	2,100,000
Cash received from grantor agencies	26,100		18,900	-	45,000
Other non-capital activities	(211,534)		(42,051)	-	(253,585)
Net cash provided by non-capital financing activities	314,566		1,576,849	-	1,891,415
Cash flows from capital and related financing activities:					
Proceeds from issuance of long-term debt	-		3,036,848	-	3,036,848
Principal payment on long-term debt	(625,791)		(646,018)	-	(1,271,809)
Interest paid on long-term debt	(212,455)		(135,755)	-	(348,210)
Appropriations received from the Republic of Palau	-	2,238,928	166,981	-	2,405,909
Proceeds from reimbursable grant from the Republic of Palau	1,800,000		-	-	1,800,000
Advances from the Republic of Palau	70,000		(100,000)	-	(30,000)
Acquisition of utility plant	(450,432)		(1,967,217)	-	(2,417,649)
Net cash provided by capital and related financing activities	581,322		354,839	-	3,175,089
Net change in cash and cash equivalents	2,505,407		443,003	-	5,187,338
Cash and cash equivalents at beginning of year	6,343,485	122,807	2,425,096	-	8,768,581
Cash and cash equivalents at end of year	$ 8,848,892		$ 2,868,099	$ -	$ 13,955,919
Reconciliation of operating loss to net cash provided by (used in) operating activities:					
Operating loss	$ (121,593)		$ (4,673,281)	$ -	$ (4,794,874)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:					
Depreciation	2,969,729		2,238,928	-	5,208,657
Provision for uncollectible receivables	72,014		79,886	-	151,900
Pension expense	1,221,119		804,284	-	2,025,403
(Increase) decrease in assets:					
Receivables:					
Trade	(115,524)		(212,446)	-	(327,970)
Affiliate	(1,844,680)		(19,884)	1,888,146	23,582
Contracts	13,915		45,351	-	59,266
Other	(16,267)		5,997	-	(10,270)
Prepaid expenses	(159,475)		52,690	-	(106,785)
Inventory	1,517,166		(92,910)	-	1,424,256
Increase (decrease) in liabilities:					
Accounts payable	(1,833,705)		771,010	(1,888,146)	(2,950,841)
Accrued expenses	119,126		(482,193)	-	(363,067)
Grant advances from the Republic of Palau	(205,179)		-	-	(205,179)
Customer deposits	(8,436)		(6,560)	-	(14,996)
Net cash provided by (used in) operating activities	$ 1,608,210		$ (1,489,128)	$ -	$ 119,082

See accompanying independent auditors' report.

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

Schedule of Revenues and Expenses (Before Eliminations)
Year Ended September 30, 2020

	Electric Power Operations	Water and Wastewater Operations
Operating revenues:		
Commercial	$ 7,755,191	$ 1,936,383
Residential	7,134,600	2,118,123
Government	1,086,484	117,089
Republic of Palau and component units	5,700,818	400,609
Other	679,984	121,988
	$ 22,357,077	$ 4,694,192
Operating expenses:		
Personnel costs:		
Salaries and wages	$ 3,191,149	$ 2,350,299
Employee benefits	466,937	351,073
Other employee benefits	75,150	38,192
Pension expense adjustment - GASB 68	1,221,119	804,284
Total personnel costs	4,954,355	3,543,848
Generation - fuel	11,137,098	-
Depreciation	2,969,729	2,238,928
Repairs and maintenance	2,388,902	791,353
Utilities	67,343	1,913,575
Small tools and equipment	83,210	52,198
Professional services	88,962	48,508
Gas and oil	137,996	79,942
Insurance	116,294	35,920
Supplies	93,179	53,597
Communication	69,169	40,053
Rent	40,547	36,375
Water treatment chemicals	-	330,423
Others	259,872	122,867
	$ 22,406,656	$ 9,287,587

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