Financial Statements, Required Supplementary Information, Supplementary Information and Report on Internal Control and Compliance

Palau Public Utilities Corporation

(A Component Unit of the Republic of Palau)

Years ended September 30, 2024 and 2023 with Report of Independent Auditors

Shape the future with confidence

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

Financial Statements, Required Supplementary Information and Supplementary Information, and Report on Internal Control and Compliance

Years ended September 30, 2024 and 2023

Contents

Report of Independent Auditors....1
Management's Discussion and Analysis....4

Audited Basic Financial Statements:
- Statements of Net Position....24
- Statements of Revenues, Expenses and Changes in Net Position....26
- Statements of Cash Flows....27
- Statements of Fiduciary Net Position....29
- Statements of Changes in Fiduciary Net Position....30
- Notes to Financial Statements....31

Required Supplementary Information:
- Schedule 1 - Schedule of Proportionate Share of the Net Pension Liability....57
- Schedule 2 - Schedule of Pension Contributions....58

Supplementary Information:
- Schedule 3 - Combining Statements of Net Position....59
- Schedule 4 - Combining Statements of Revenues, Expenses and Change in Net Position....63
- Schedule 5 - Combining Statements of Cash Flows....65
- Schedule 6 - Schedules of Revenues and Expenses (Before Elimination)....69

Compliance and Internal Control
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*....71

Schedule of Findings and Responses....73

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

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

Report of Independent Auditors

Board of Directors
Palau Public Utilities Corporation:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities and fiduciary activities of Palau Public Utilities Corporation (the Corporation), as of and for the years ended September 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion on the 2024 Financial Statements section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary activities of Palau Public Utilities Corporation as of September 30, 2024 and 2023, and the changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on the 2024 Financial Statements

At September 30, 2024, the Company recorded deferred outflow of resources, deferred inflow of resources and net pension liability in its statement of net position of $7,095,021, $9,819,614, and $22,195,116, respectively. We were unable to obtain sufficient appropriate audit evidence about the aforementioned amounts as of September 30, 2024 because we were unable to obtain evidence needed from the actuarial valuation yet to be issued by the Republic of Palau Civil Service Pension Plan. As a result, we were unable to determine whether any adjustments to these amounts are necessary.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the 2024 financial statements and for our unmodified audit opinion on the 2023 financial statements.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 23, the Schedule of Proportionate Share of the Net Pension Liability on page 57, and Schedule of Pension Contributions on page 58 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The supplementary information on pages 59 through 70 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Corporation's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with GAAS. In our opinion, except for the matter discussed in the Basis for Qualified Opinion on the 2024 Financial Statements, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statement as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2026 on our consideration of the Corporation 's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation 's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Ernst + Young

May 31, 2026

The Management's Discussion and Analysis (MD&A) present the Palau Public Utilities Corporation's financial performance during the fiscal year ended September 30, 2024. 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, 2024, which follow this section.

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

COMPANY OVERVIEW

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

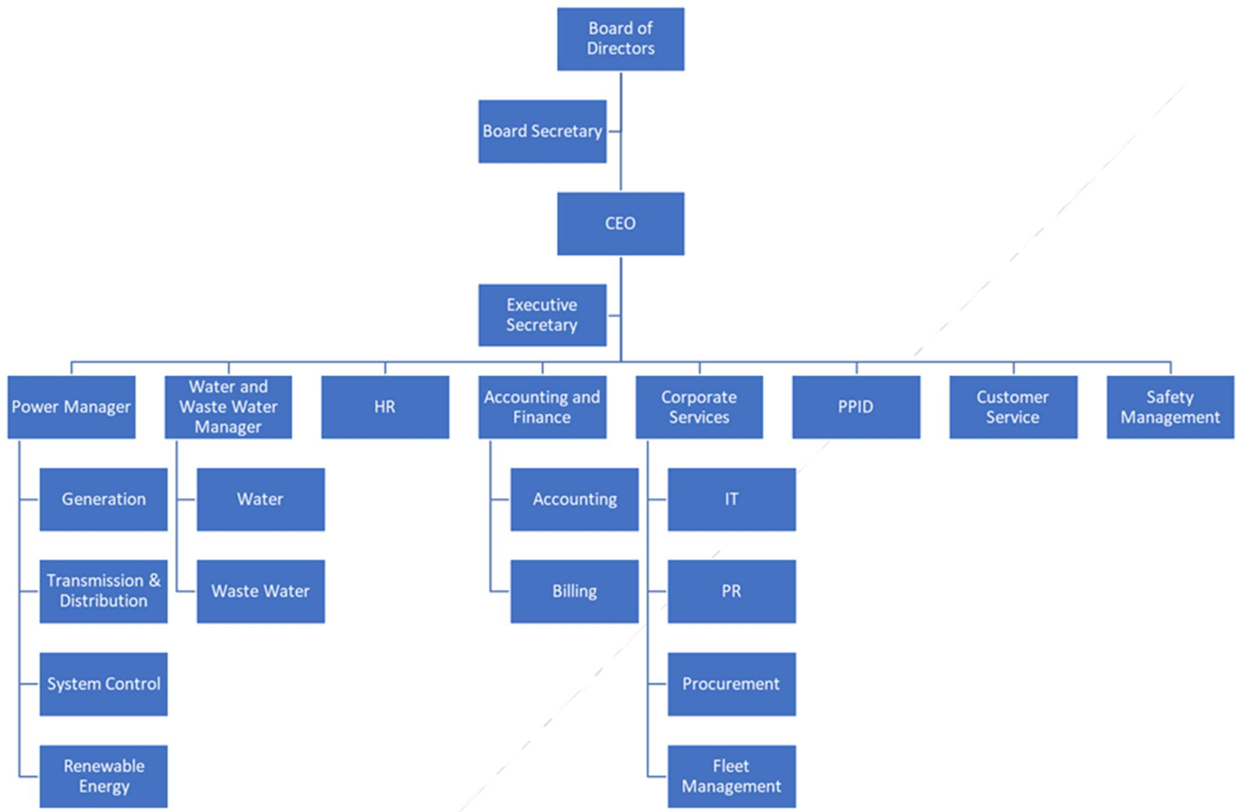
After the merger, about 112 employees from the National Government's water and wastewater operation transitioned to the new PPUC. From an Electrical utility with 149 employees, PPUC expanded to a total workforce of over 311 employees as of to date, delivering both electricity and water/wastewater operations to the entire Republic of Palau.

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

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

COMPANY OVERVIEW, continued

Chart 1. Current Organizational Chart



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

FINANCIAL STATEMENTS

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

The Statement of Net Position includes all 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 (2024) fiscal year's revenues, and expenses; measures the success of the Corporation's operations compared to the prior fiscal year; and shows the extent in which PPUC successfully recovered costs through tariffs and other charges. External grant donors and financial institutions review this statement to determine the financial performance of the Corporation. The Statement of Cash Flow provides information on corporate cash inflows and outflows, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities. The Statement provides insight into aspects of cash management, including the sources and uses of cash, and the net change in cash balance during the fiscal year.

ELECTRIC POWER OPERATIONS

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

Major projects for Electric Power Operations (EPO) as of FY 2024 are the following:

- Modification of the Niigata control system. This project was financed by the ADB-PBL Subprogram 1 amounting to 2.5 million. This project is expected to be completed in FY 2025.

- Japan International Cooperation Agency (JICA) granted the Republic of Palau a grant for the improvement of the power transmission network. The Government of Palau designated PPUC as the executing agency to supervise and manage the implementation of the project. The objective of this project (as stated) is to improve stability and reliability of the power supply by/through construction and rehabilitation of substations and transmission lines, thereby contributing to social and economic development and to accelerate the use of renewable energy in Palau. This project had started in FY 2024.

ELECTRIC POWER OPERATIONS, continued

- To reached 45% renewables as mandated by Palau's NDC, PPUC entered into a power purchase agreement for a Solar Photovoltaic (PV) Independent Power Producer (IPP). Certificate of Commercial Operation was issued to the Contractor on April 30, 2024. With the emergence of IPP, a new electricity tariff was introduced by Palau Energy and Water Administration (PEWA) in July 2024. The previously so-called Automatic Price Adjustment Clause (AFPAC) was changed to Distributed Energy Rate (DER). This new DER reflects costs incurred by PPUC in purchasing fuel, lubrication products, transportation of fuel to Outlying States and cost of energy purchased from IPP. This new DER will be implemented in FY 2025.

- Other major works done this FY 2024 are: protective relays system upgrade, relocation of power poles from an abandoned road to the existing roadway in Aimeliik; and roof installation of the containerized BESS solar in Kayangel.

The table below shows the new base tariff and the effective quarterly AFPAC in FY 2024.

Table 1: EPO (Energy) Tariff Schedule

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

Table 2: Effective quarterly AFPAC

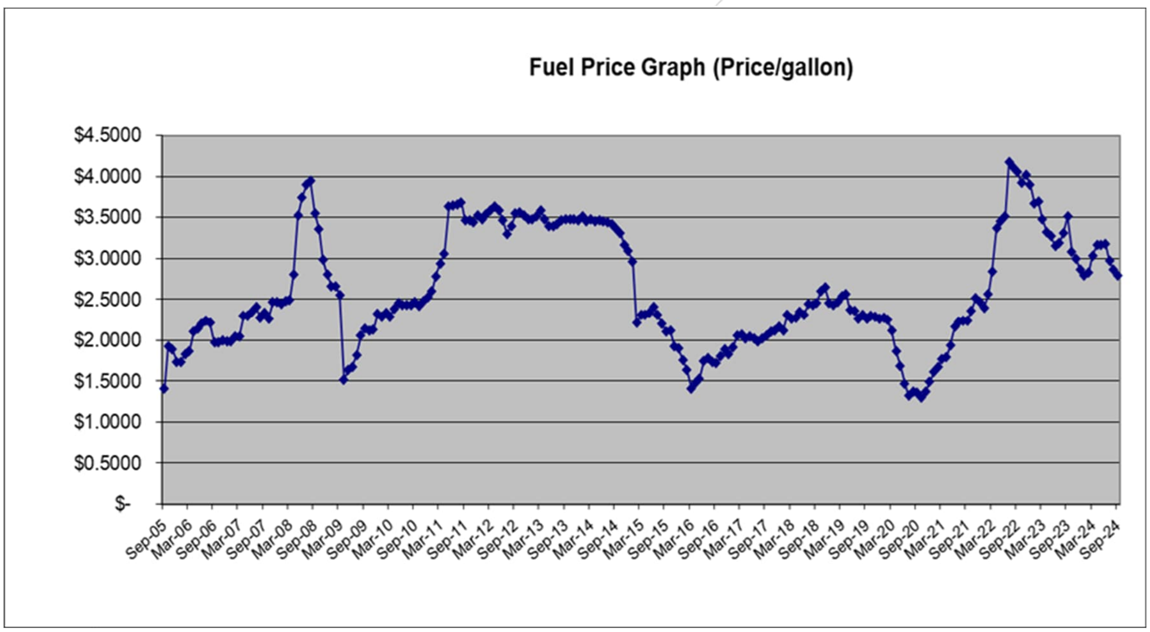
FY 2024 Per Quarter	Fuel Rate
1st QTR (October-December 2023)	$.175 /kWh
2nd QTR (January-March 2024)	$.257 /kWh
3rd QTR (April-June 2024)	$.289 /kWh
4th QTR (July-September 2024)	$.289 /kWh

ELECTRIC POWER OPERATIONS, continued

The effect of pandemic in the global market was the reduction of fuel prices by almost 30% - 40% in FY2020. However, in later months of FY2021 economy was recovering from covid, inflation was projected at 4.7% but due to war in Ukraine, fuel and other commodities have increased rapidly and inflation was at 8.6% in 2022; based on the IMF report. The impact is an increase of 75% in fuel prices in FY2022 compared to FY2020 during pandemic. This resulted to higher fuel expense and AFPAC. Due to the sudden increase of AFPAC in October – December 2021 by almost $14.3, ROP appropriated a $2.55 million subsidy to customer's bill, as per RPPL 11-18 Section 33.a. In FY2023 ROP appropriated $1.60 million to subsidized residential customers consumption up to 500 kWh for $0.10 of the AFPAC rate, as per RPPL 10-24, section 20.b and further amended in RPPL 11-29, section 20.b. In FY 2024, the Republic of Palau (ROP) granted an additional $1.85 million subsidy to support residential customers under RPPL 11-31, Section 24.2. In addition, $0.03 million was provided for the lifeline subsidy pursuant to Section 24.1 of RPPL 11-31.

The Chart below chows the changes in fuel price from FY 2006 – FY 2024

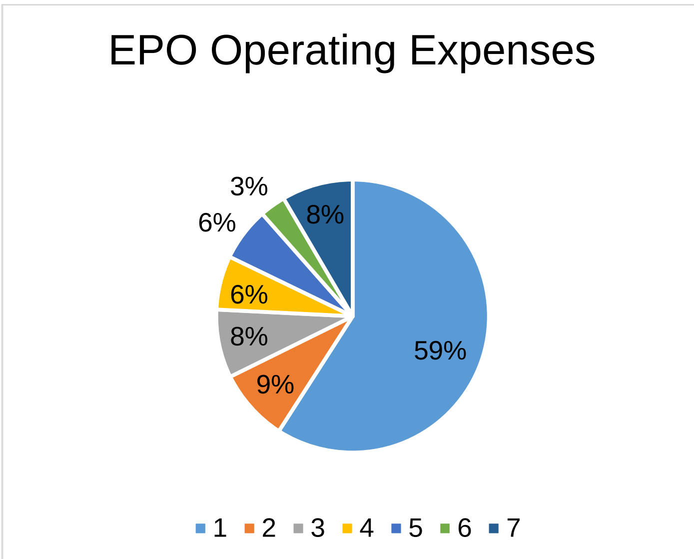
Chart 2: Fuel Price



The charts and tables below show the ratio of the total operating expenses of the EPO for FY 2024 and the operational performance of PPUC since FY 2019 up to FY 2024.

ELECTRIC POWER OPERATIONS, continued

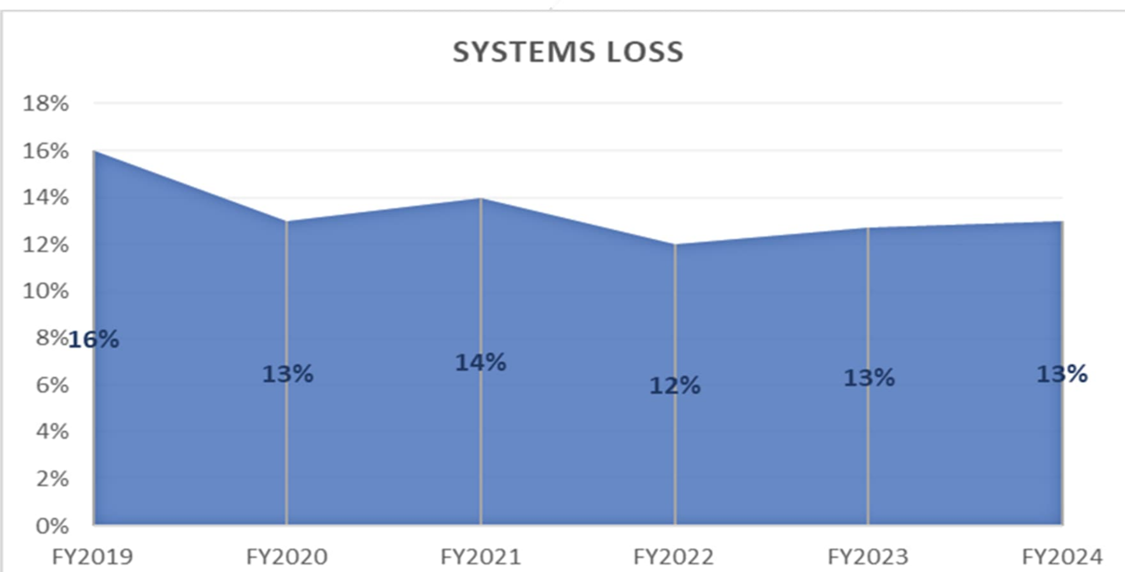
Chart 3. Total Operating Expense of EPO:



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 59% of the operating expenses is generation fuel.

Chart 4. System losses of PPUC from FY 2019 to FY 2024

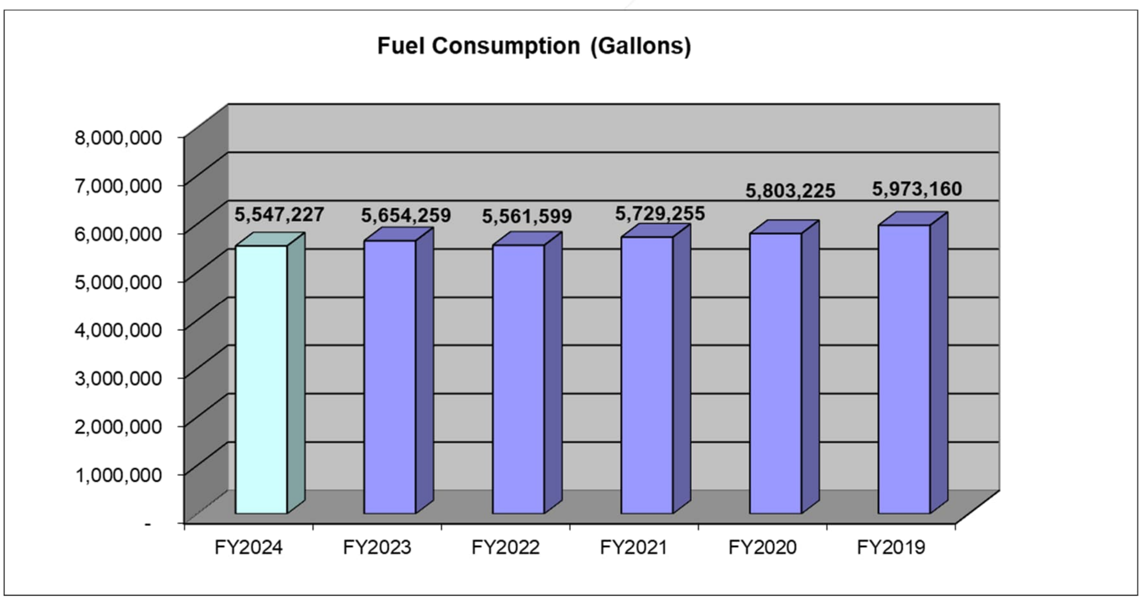


ELECTRIC POWER OPERATIONS, continued

Table 3. Kilowatt Hour (kWh) Generated vs kWh Billed vs Fuel Consumption

kWh	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Generation (Diesel)	88,615,682	86,411,882	82,770,073	80,103,005	82,026,201	81,139,163
Generation (IPP)						8,833,966
Total Generation	88,615,682	86,411,882	82,770,073	80,103,005	82,026,201	89,973,129
Billed	74,824,795	74,965,127	71,389,139	69,335,745	68,743,275	75,268,797
Fuel Consumption	5,973,160	5,803,225	5,921,381	5,561,599	5,541,165	5,547,227
% Inc/(Dec) in Generation	-0.91%	-2.49%	-4.21%	-3.22%	2.40%	9.69%
% Inc/(Dec) in Billing	-0.80%	0.19%	-4.77%	-2.88%	-0.85%	9.49%
% Inc/(Dec) in Fuel Consumption	0.34%	-2.84%	2.04%	-6.08%	-0.37%	0.11%

Chart 5: Fuel Consumption (All Powerplants)



The kWh generated and kWh billed both increased by 9%, while fuel consumption increased by only 0.11%.

ELECTRIC POWER OPERATIONS, continued

EPO Financial Highlights

Table 4: EPO Statements of Revenues, Expenses and Changes in Net Position

	(Dollars in Thousands)				
ELECTRIC POWER OPERATIONS	**SEPT. 30, 2024**	**SEPT. 30, 2023**	**SEPT. 30, 2022**	**INC/(DEC) 2024**	**INC/(DEC) 2023**
Revenues, Expenses, and Changes in Net Position					
Operating Revenues					
Electric	31,571	29,884	26,913	1,687	2,971
Others	2,797	2,297	1,585	500	712
Prov'n for Bad Debts	(237)	(211)	(176)	(26)	(35)
Total Revenue	**34,131**	**31,970**	**28,322**	**2,161**	**3,648**
Operating Expenses					
Generation Fuel	17,047	19,426	17,808	(2,379)	1,618
Generation Other Costs	2,485	4,269	3,640	(1,784)	629
Depreciation	2,338	2,403	2,675	(65)	(272)
Administration	1,841	2,150	2,087	(309)	63
Dist'n & Transmission	1,817	1,901	2,030	(84)	(129)
Engineering	894	632	702	262	(70)
Renewable Energy	2,438	283	290	2,155	(7)
Total Operating Expenses	**28,860**	**31,064**	**29,232**	**(2,204)**	**1,832**
Non-Operating Revenue/(Expenses)	(117)	(176)	2,418	59	(2,594)
Change in Net Position	5,154	730	1,508	4,424	(778)
Beginning Net Position	31,347	30,617	29,109	730	1,508
Ending Net Position	**36,501**	**31,347**	**30,617**	**5,154**	**730**

Operating revenue increased by 7%, due to the increase in kWh billed despite the decrease in AFPAC. Total expenses had decreased by 7% because there are no major overhauls and only top end. Generation fuel decreased by 12% due to the decrease in price.

ELECTRIC POWER OPERATIONS, continued

EPO Financial Highlights, continued

Table 5: EPO Statements of Net Position

	(Dollars in Thousands)				
ELECTRIC POWER OPERATIONS	**SEPT. 30, 2024**	**SEPT. 30, 2023**	**SEPT. 30, 2022**	**INC/(DEC) 2024**	**INC/(DEC) 2023**
Statement of Net Position					
Current Assets	41,443	37,573	38,696	3,870	(1,123)
Other Assets	720	720	720	-	-
Net Utility Plant	22,733	24,180	24,754	(1,447)	(574)
Total Assets	64,896	62,473	64,170	2,423	(1,697)
Deferred Outflows from Pension	4,687	4,687	6,132	-	(1,445)
	69,583	**67,160**	**70,302**	**2,423**	**(3,142)**
Current Liabilities	8,394	10,723	13,932	(2,329)	(3,209)
Other Liabilities	5,200	5,600	6,000	(400)	(400)
Net Pension Liability	13,459	13,460	16,087	(1)	(2,627)
Total Liabilities	27,053	29,783	36,019	(2,730)	(6,236)
Deferred Inflows from Pension	6,029	6,029	3,665	-	2,364
	33,082	**35,812**	**39,684**	**(2,730)**	**(3,872)**
Invested in Capital Assets	22,734	23,508	23,890	(774)	(382)
Unrestricted	13,767	7,840	6,728	5,927	1,112
Total Net Position	**36,501**	**31,348**	**30,618**	**5,153**	**730**

Cash increased by 24% due to the decrease in expenses. Accounts Receivable increased by 30%. The $19.6 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 up the accounts receivable of the electric operations and impacting EPO's cash flow. FY 2024 total power expense of WWO is at $4.0 million.

WATER AND WASTEWATER OPERATIONS

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

The prime objective of PPUC-Water and Wastewater Operations (WWO) as mandated by the law is that full cost recovery is achieved. Thus, a table of tariff rate was established to take effect April 2015. These rates were designed for PPUC in order to ensure achievement of full cost recovery and to fulfill the requirements of the ADB KASP loan agreement. However, with RPPL 10-19, 10-26, and 10-42 placing a prohibition on increasing the tariff of Water and Wastewater, this objective could not be achieved. In October 2020, the tariff prohibition was lifted and the last column of the April 2015 tariff table took effect in January 31, 2021. However, outlying states, Babeldaob and Youldaob are still being charged with the 2011 water rates until the water quality is improved.

Earlier in 2020, Asian Development Bank (ADB), through the Ministry of Finance established a Policy Based Loan (PBL) of $10.00 million for PPUC to be divided into two (2) tranches. Part of Subprogram 1 amounting to $1.30 million was used to improve KAWTP. These include: 1.) Improvement of chemical feeder, building equipment, and flocculator; 2.) Repair and repaint of steel sand filter tank and improvement of seven (7) sludges drying bed. In FY 2024, the subprogram 1 projects were completed.

Subprogram 2 amounting to $4.10 million will improve WWO's treatment, distribution facilities, and improvement of some parts of outlying states. Amongst the revenue enhancement plan for the Subprogram 2 are: 1.) Replacement of 10,000 ft of 100mm local pipes in Ngerekesoal. This project is expected to be completed in FY 2025; 2.) Replacement of 12 water pumps in Ngerikiil and KAWTP. This project is expected to be completed in FY 2026. 3.) Improvement of pump stations and reservoirs at Ollei, Mengellang, and Ibobang. These projects were completed in FY 2024.

On January 27, 2022 the Board approved the WWO Tariff Model, Tariff Petition and Revenue Enhancement Plan. It was submitted to the Palau Energy and Water Administration (PEWA) on April 7, 2022 and was approved in October 2022. PPUC conducted public hearing on March 2023 and implemented the new WWO Rate on May 1, 2023. In order to minimize the impact of the new WWO rates to the residential customers, ROP appropriated $0.40 million to subsidize residential customers water bill up to 2,500 gal and wastewater bill up to 2,000 gal as per RPPL 11-29, Section 20.c. However, ROP issued RPPL 11-31 in FY2024 to remove the KASP repayment part in the tariff and also the fixed service delivery cost and make it all volumetric rates. Thus, wastewater rate was reduced to $6.58/1000 gal from $9.31/1000 gal in November 2023. ROP issued the RPPL 11-32, a new tariff proposal was then developed and submitted to PEWA in April 2024. The new tariff is expected to be implemented in FY 2025.

WATER AND WASTEWATER OPERATIONS, continued

In RPPL 11-31, ROP appropriated $0.96 million subsidy to residential customers to cover the water bill up to 2,500 gal and wastewater bill up to 2,500 gal. Community Service Obligation (CSO) amounting to $0.28 million was also disbursed to PPUC to do the following: 1.) Ngiwal State water pump project, 2.) Ngaraard State water dam project, and 3.) Aimeliik Elechui power line extension to the water pump station project. Also, in the RPPL 11-32, section 44 was for ROP to pay off the KASP loan.

Table 6. Below shows the WWO tariff effective and May 1, 2023 and November 1, 2023

KOROR-AIRAI Water & Sewer Rates Effective May 1, 2023
Residential Rates

Water Rates	0 & Above	$6.72/1000 gals
Sewer Rates	0 & Above	$9.31/1000 gals
Fixed Service Delivery Cost		$15.00/customer
Commercial/ROP/Govt.		
Water Rate	0 & Above	$6.72/1000 gals
Sewer Rate	0 & Above	$9.31/ 1000 gals
Fixed Service Delivery Cost		$23.70/customer
BABELDAOB & IOUELDAOB		
Water Rates		
Residential Rates		
Water Rates Tier 1	<5000/Gals	$1.06/1000 gals
Water Rates Tier 2	>5001	$1.28/1000 gals
Sewer Rates	0 & Above	$0.30/1000 gals
Babeldaob & Youldaob W/fixed charged/month (WWR09)	$7.50	$0.25/Day
Babeldaob & Yoouldaob S/fixed charged/month (WWR21)	$1.50	$0.05/Day
Commercial/ROP/Govt.		
Water Rates	0 & Above	$1.28/1000 gals
Sewer Rates	0 & Above	$1.28/1000 gals

WATER AND WASTEWATER OPERATIONS, continued

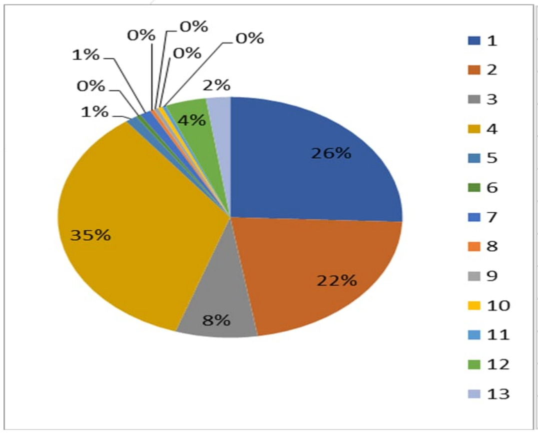
KOROR-AIRAI Water & Sewer Rates Effective November 1, 2023

Residential Rates

Water Rates	0 & Above	$6.72/1000 gals
Sewer Rates	0 & Above	$6.58/1000 gals
Commercial/ROP/Govt.		
Water Rate	0 & Above	$6.72/1000 gals
Sewer Rate	0 & Above	$6.58/ 1000 gals
BABELDAOB & IOUELDAOB		
Water Rates		
Residential Rates		
Water Rates Tier 1	<5000/Gals	$1.06/1000 gals
Water Rates Tier 2	>5001	$1.28/1000 gals
Sewer Rates	0 & Above	$0.30/1000 gals
Babeldaob & Youldaob W/fixed charged/month (WWR09)	$7.50	$0.25/Day
Babeldaob & Yoouldaob S/fixed charged/month (WWR21)	$1.50	$0.05/Day
Commercial/ROP/Govt.		
Water Rates	0 & Above	$1.28/1000 gals
Sewer Rates	0 & Above	$1.28/1000 gals

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

Chart 6: 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

WATER AND WASTEWATER OPERATIONS, continued

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 $4.0 million this FY 2024. As discussed in EPO's financial highlights, WWO's inability to pay its power consumption has dramatically increased its accounts payable to $19.56 million and thus affecting EPO's cash requirement in covering its operating expenses.

Table 7: Gallons Billed and No. of Customers

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Gal Billed	678,084,623	603,948,886	600,674,130	566,065,494	594,039,615
No. of Customer	5,045	5,119	5,182	5,215	5,299

The Non-Revenue Water (NRW) project, under the technical cooperation grant scheme of Japan International Cooperation Agency (JICA), together with Yachiyo Engineering Co., Ltd; and Japan Techno Co., Ltd. was completed in February 2024. This project focuses on strengthening capacity and will achieve the following outputs: 1.) Implementation capacity of pipe renewal is improved through preparation of pipelines renewal basic plan for Koror-Airai water distribution system; 2.) Capacity of leak detection and replacement/switch-over of pipes is improved; 3.) Capacity of commercial loss reduction, water use monitoring, public awareness on water save is improved. The team had installed a Google App that calculates and monitors monthly NRW. A follow-up project for the improvement of the water supply system in Koror and Airai under the JICA Grant Aid scheme is being negotiated with JICA in FY2024 and is expected to be approved in FY2025. Another grant that PPUC received in FY 2024 is the $0.04 million from the Environmental Science and Research for strengthening the water and sanitation database of PPUC. This is funded by the New Zealand Ministry of Foreign Affairs and Trade. PPUC also received $0.08 million grant from the US Department of Interior – Office of Insular Affairs for the Babeldaob water quality monitoring project.

Significant improvements are needed to upgrade the systems' capacity to the domestic and commercial growth. This includes the Koror-Airai Sanitation Project (KASP) which led to a secured long-term soft-loan with the Asian Development Bank (ADB) of $28.00 million. The two-year construction was finished and in full operation by FY2023. However, ICB-05 was incomplete, thus, an additional financing is being negotiated with the Asian Development Bank (ADB) to finish the KASP. The fact-finding mission for the KASP's additional financing which is a $2.00 million grant from ADB was completed in August 2024 and will be expected by FY2025 to FY2026.

WATER AND WASTEWATER OPERATIONS, continued

WWO Financial Highlights

Table 8: WWO Statements of Revenues, Expenses and Changes in Net Position

	(Dollars in Thousands)				
WATER AND WASTEWATER OPERATIONS	**SEPT. 30, 2024**	**SEPT. 30, 2023**	**SEPT. 30, 2022**	**INC/(DEC) 2024**	**INC/(DEC) 2023**
Revenues, Expenses, and Changes in Net Position					
Operating Revenues					
Water and Wastewater	5,190	5,176	3,807	14	1,369
Others	357	320	277	37	43
Prov'n for Bad Debts	(249)	(180)	26	(69)	(206)
Total Revenue	**5,298**	**5,316**	**4,110**	**(18)**	**1,206**
Operating Expenses					
Water and Wastewater	7,770	7,172	7,037	598	135
Depreciation	2,559	2,470	2,453	89	17
Administration	1,391	1,494	1,345	(103)	149
Total Operating Expenses	**11,720**	**11,136**	**10,835**	**584**	**301**
Non-Operating Revenue/(Expenses)	1,323	(734)	(527)	2,057	(207)
Capital Contributions					
Change in Net Position	(5,099)	(6,554)	(7,252)	1,455	698
Beginning Net Position	(8,120)	(1,566)	5,685	(6,554)	(7,251)
Ending Net Position	**(13,219)**	**(8,120)**	**(1,567)**	**(5,099)**	**(6,553)**

Operating revenue decreased by 0.3% despite the increase in the gal billed because the wastewater rate was reduced and the fixed service delivery cost was removed from the tariff in November 2023 due to the RPPL 11-31. Operating expense increased by 5% due to increase in maintenance and utility expenses. KASP loan was being paid by the ROP (both principal and interest) in FY2024.

WATER AND WASTEWATER OPERATIONS, continued

WWO Financial Highlights, continued

Table 9: WWO Statements of Net Position

	(Dollars in Thousands)				
WATER AND WASTEWATER OPERATIONS	**SEPT. 30, 2024**	**SEPT. 30, 2023**	**SEPT. 30, 2022**	**INC/(DEC) 2024**	**INC/(DEC) 2023**
Statement of Net Position					
Current Assets	2,905	5,669	7,311	(2,764)	(1,642)
Other Assets				-	-
Net Utility Plant	41,225	40,216	41,470	1,009	(1,254)
Total Assets	44,130	45,885	48,781	(1,755)	(2,896)
Deferred Outflows from Pension	2,408	2,408	3,145	-	(737)
	46,538	**48,293**	**51,926**	**(1,755)**	**(3,633)**
Current Liabilities	23,245	18,111	13,756	5,134	4,355
Other Liabilities	23,986	25,776	27,111	(1,790)	(1,335)
Net Pension Liability	8,736	8,736	10,276	-	(1,540)
Total Liabilities	55,967	52,623	51,143	3,344	1,480
Deferred Inflows from Pension	3,790	3,791	2,350	(1)	1,441
	59,757	**56,414**	**53,493**	**3,343**	**2,921**
Invested in Capital Assets	21,488	19,133	17,152	2,355	1,981
Unrestricted	(34,707)	(27,254)	(18,719)	(7,453)	(8,535)
Total Net Position	**(13,219)**	**(8,121)**	**(1,567)**	**(5,098)**	**(6,554)**

Cash decreased by 83% due to the ADB-PBL loan proceeds that were being exhausted in FY 2024, decrease in wastewater rate and removal of the service delivery cost from the tariff, and increase in maintenance cost. Accounts Receivable increased by 20%. Current Liabilities increased by 28% due to additional current portion of KASP Loan and unpaid electric bill of WWO amounting to $19.56 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 decreased by 7% due to the progress of KASP where liability is recorded upon disbursement of the costs of the project and the ADB-PBL.

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, 2022 through 2024. The total investment in capital assets amounted to $63.8 million (net of accumulated depreciation). The overall corporate capital assets decrease by $1.4 million.

Table 10: PPUC's Capital Assets

(Dollars in Thousands)

	Sept 30, 2024	Sept 30, 2023	Sept 30, 2022	Increase (Decrease) 2023	Increase (Decrease) 2022
Electric Plants, Koror/Aimeliik	34,385	34,385	33,202	-	1,183
Electric Plants, Outlying States	2,268	2,349	2,302	(81)	47
Total Electric Plants	36,653	36,734	35,504	(81)	1,230
Accumulated Depreciation	(22,623)	(21,428)	(20,094)	(1,195)	(1,334)
Net Electric Plant	14,030	15,306	15,410	(1,276)	(104)
T&D System, Koror/Aimeliik	19,452	20,359	19,259	(907)	1,100
T&D System, Outlying States	2,176	1,154	2,149	1,022	(995)
Total T&D System	21,628	21,513	21,408	115	105
Accumulated Depreciation	(16,573)	(15,954)	(15,332)	(619)	(622)
Net T&D System	5,055	5,559	6,076	(504)	(517)
Water Infrastructure	43,104	41,222	40,695	1,882	527
Sewer Infrastructure	31,409	31,352	31,239	57	113
Total Water & Sewer Systems	74,513	72,574	71,934	1,939	640
Accumulated Depreciation	(49,786)	(47,454)	(45,173)	(2,332)	(2,281)
Net Water & Sewer Systems	24,727	25,120	26,761	(393)	(1,641)
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	(592)	(517)	(443)	(75)	(74)
Net WWO T&D System	789	864	938	(75)	(74)
Buildings	3,539	3,452	3,239	87	213
Heavy Equipment & Vehicles	4,018	3,679	3,463	339	216
Tools & Maint Equipment	637	568	556	69	12
Computers & Office Equipment	1,458	1,421	1,442	37	(21)
Total Admin Equipment	9,652	9,120	8,700	532	420
Accumulated Depreciation	(6,937)	(6,689)	(6,207)	(248)	(482)
Net Admin Equipment	2,715	2,431	2,493	284	(62)
Total Capital Projects in Progress	16,642	15,116	14,546	1,526	570
	$ 63,958	$ 64,396	$ 66,224	(438)	(1,828)

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

CAPITAL ASSETS AND LONG-TERM DEBTS, continued

Long-Term Debts

The international and local loans were acquired to purchase additional generation capacity and to finance major repairs and generation auxiliary equipment. The long-term soft loan secured by the ROP from Asian Development Bank was subsequently loaned to PPUC as per subsidiary loan agreements dated March 28, 2014. Proceeds are used to upgrade the Koror sewerage system and construct wastewater treatment plant. The ADB loan amount as of September 30, 2023 reflects the total amount of the loan proceeds withdrawn and is recognized as long-term debt in the final statements. Additional loan of $10.00 million is also a loan secured by ROP for PPUC from the Asian Development Bank. A Policy-Based Loan that requires reforms and tariff study and expected to augment PPUC's operations both in EPO and WWO

The **Table 11** below shows the outstanding loans of PPUC:

	(Dollars in thousands)	
		Sept 30,
	Original	2024
EPO International Loan (MEGA)	$ 7,000	$ 1,000
EPO Local Loan (NDBP)	$ 3,000	$ -
WWO International Loan (ADB 3060 & 3061)	$ 28,672	$ 19,257
Returnable Subsidy (RPPL 10-53 / 11-14)	$ 1,800	$ -
EPO ADB PBL Loan	$ 3,700	$ 4,600
WWO ADB PBL Loan	$ 1,300	$ 5,400
TOTAL	$ 45,472	$ 30,257

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

Management's Discussion and Analysis, continued

Contracts amounting to $26.5 million have been awarded as shown in the **Table 12** below:

ADB Loan Contractors	KASP Project Components	Contract Amount ('000)
Progetti Plant, SRL	ICB-01 - Sewer Network Rehabilitation & Expansion at Malakal & Meyuns	$ 4,174
Pacific Engineering Projects, Ltd.	ICB-02 - Koror Sewer Network Rehabilitation & Expansion Works	$ 5,012
Pacific Engineering Projects, Ltd.	ICB-03 - Malakal Sewer Treatment Plant Upgrade	$ 11,000
Egis Eau	Project Implementation Assistance Consultants (PIAC)	$ 5,213
US Jetting, LLC	High Pressure Jetter for Sewage System	$ 62
Surangel & Sons Construction	NCB-02 - Asphalt Road Reinstatement & Related Structures in Malakal	$ 301
Naveen Kumar Rejeti	Consulting Services	$ 36
Williams Construction Company	Ernguul Park Public Restroom	$ 94
VMJ Construction Company	NCB-03 - Construction of Washout Chambers on New SPS-1 Force Main	$ 209
Saint Gobain PAM	Supply of Manhole Covers	$ 17
Palau National Quary	Long Island Park Public Restroom	$ 145
Grant S. Murdie	Consulting Services	$ 24
Mason's Hardware	Steel Plates for Sludge Storage	$ 0.06
Grundfos Pumps (Philippines), Inc.	Pumps for SPS2	$ 64
MD Wholesale	Laboratory Supplies for WWTP	$ 8
Surangel & Sons Company	Parts & Supplies for SBR Tank 2	$ 0.04
True Balue Palau Hardware	Tools for Solid Waste Collection	$ 0.05
K&E Construction Company	SPS15J Pumps Station (Meyas) Refurbishment	$ 14
Master Construction Company	SPS1 Connection & Chamber Refurbishment	$ 65
K&E Construction Company	SPS2 (Cisco Malakal) Refurbishment	$ 11
K&E Construction Company	Containcer Office Refurbishment	$ 19
Mason Engineer (NZ)	Engineering Services (Mechanical Design & Supervision of Upgraded Blower Manifold)	$ 35
		$ 26,503

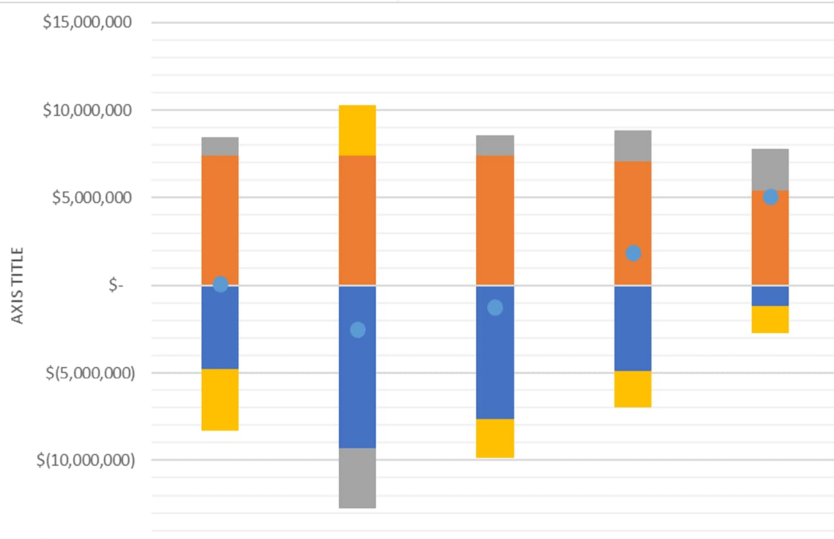
CASH POSITION

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

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

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

The **Table 13** below shows the net operating cash surplus



	2020	2021	2022	2023	2024
Inc (Dec) in Liabilities	$(3,534,083)	$2,888,784	$(2,247,952)	$(2,092,798)	$(1,566,785)
Inc (Dec) in Assets	$1,062,079	$(3,440,020)	$1,124,657	$1,776,880	$2,416,111
Depr'n and Non-Cash Provisions	$7,385,960	$7,379,399	$7,430,813	$7,081,782	$5,384,199
Operating Profit (loss)	$(4,794,874)	$(9,330,194)	$(7,634,086)	$(4,913,026)	$(1,151,969)
Net Cash Surplus (Def) from Operations	$119,082	$(2,502,033)	$(1,223,155)	$1,852,838	$5,081,556

FUTURE OUTLOOK

RPPL 9-04 requires the Corporation to apply tariff rates for electrical and water and wastewater services that ensure "adequate" charges are imposed for its services including fuel recovery and operating and maintenance costs. The Corporation interprets the meaning of "adequate" to be the charges should be sufficient to meet the fuel costs and other operating and capital costs of providing the services.

In June 2021, PPUC's base rate in EPO had increased to reach full cost recovery. This tariff study allowed PPUC to change the base rate annually depending on the projected operating and capital expenditures of the Corporation. Also, AFPAC was terminated and a new Distributed Energy Rate (DER) was introduced to cover both diesel fuel and solar generation from IPP. This will take effect in October 2024 and will be automatically adjusted every two (2) months. These major improvements to the electric power operations will allow them to operate effectively and efficiently and deliver the best quality of services to the people. A revised WWO Tariff was proposed to PEWA and took effect last May 2023, however due RPPL 11-31 it was reduced and changed. But in April 2024 a new tariff proposal was introduced again to PEWA and is expected to be implemented in February 2025. This will enable WWO to recover the cost of operations, capital expenditures and debt services. However, due to the outlying states, Babeldaob and Youldaob remaining at 2011 rates until water quality is improved, it will not reach full-cost recovery.

The Corporation exists as a commercial entity. It has an obligation to recover its costs through the imposition of adequate tariff rates. Restricting the capacity of the Corporation to adjust tariffs for the purposes of applying "adequate" charges could affect its operating performance and financial stability. The tariff study being done for both EPO and WWO in relation to the ADB-PBL is expected to resolve this issue of cost-recovery and sustainability of the Corporation.

CONTACTING PPUC'S FINANCIAL MANAGEMENT

This financial report is designed to provide PPUC's rate payers, creditors, funding sources, and other interested parties with a general overview of PPUC's finances operations and to demonstrate PPUC's accountability for the money it receives. Management Discussion and Analysis for the year ended September 30, 2023 is set forth in PPUC's report on the audit of financial statements which is dated March 25, 2026.

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, 2024	September 30, 2023
Assets and Deferred Outflows of Resources		
Utility plant:		
Depreciable utility plant, net	$47,316,817	$49,280,373
Non-depreciable utility plant	16,641,492	15,115,529
Net utility plant	63,958,309	64,395,902
Current assets:		
Cash and cash equivalents	9,406,848	9,805,090
Receivables:		
Trade	7,020,000	5,344,397
Affiliate	623,749	190,599
Contracts	207,692	219,210
Other	89,807	19,070
	7,941,248	5,773,276
Less allowance for doubtful accounts	(3,358,204)	(2,871,659)
Net receivables	4,583,044	2,901,617
Prepaid expenses	416,760	2,143,749
Inventory, net	10,371,613	13,228,707
Total current assets	24,778,265	28,079,163
Total assets	88,736,574	92,475,065
Deferred outflows of resources from pension	7,095,021	7,095,021
	$95,831,595	$99,570,086

See accompanying notes.

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

Statements of Net Position, continued

	September 30, 2024	September 30, 2023
Liabilities, Deferred Inflows of Resources and Net Position		
Net position:		
Net investment in utility plant	$44,221,537	$42,641,766
Unrestricted	(20,940,135)	(19,414,022)
Total net position	23,281,402	23,227,744
Current liabilities:		
Current portion of long-term debt	1,790,499	1,826,038
Accounts payable	6,906,568	9,342,753
Accrued expenses	1,296,160	751,003
Due to fiduciary fund	226,216	409,831
Customer deposits	1,849,747	1,341,889
Total current liabilities	12,069,190	13,671,514
Long-term debt, net of current portion	28,466,273	30,656,098
Net pension liability	22,195,116	22,195,116
Total liabilities	62,730,579	66,522,728
Deferred inflows of resources from pension	9,819,614	9,819,614
	$95,831,595	$99,570,086

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30, 2024	Year ended September 30, 2023
Operating revenues:		
Power	$27,522,802	$26,352,525
Water	3,273,056	3,221,539
Wastewater	1,798,058	1,838,287
Other	3,154,146	2,617,234
Total operating revenues	35,748,062	34,029,585
Provision for uncollectible receivables	(486,545)	(391,135)
Net operating revenues	35,261,517	33,638,450
Operating expenses:		
Generation - fuel	17,047,319	19,425,829
Depreciation	4,897,654	4,872,336
Administration	3,162,709	3,568,250
Water operations	2,975,490	2,828,402
Generation - other cost	2,471,241	4,256,266
Renewable energy	2,427,216	272,851
Distribution and transmission	1,774,708	1,862,412
Engineering services	882,053	622,579
Wastewater operations	775,096	842,551
Total operating expenses	36,413,486	38,551,476
Operating loss	(1,151,969)	(4,913,026)
Nonoperating revenues (expenses):		
Operating subsidies from the Republic of Palau	2,711,627	19,983
Grants	132,514	499,624
Interest income	688	982
Interest expense	(1,257,917)	(1,347,751)
Loss on disposal of assets	(40,490)	(14,144)
Others	(340,795)	(68,970)
Total nonoperating revenues (expense), net	1,205,627	(910,276)
Change in net position	53,658	(5,823,302)
Net position at beginning of year	23,227,744	29,051,046
Net position at end of year	$23,281,402	$23,227,744

See accompanying notes.

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

Statements of Cash Flows

	Year ended September 30, 2024	Year ended September 30, 2023
Cash flows from operating activities:		
Cash received from customers	$33,663,716	$33,722,302
Cash payments to suppliers for goods and services	(21,610,217)	(26,172,310)
Cash payments to employees for services	(6,971,943)	(5,697,154)
Net cash provided by operating activities	5,081,556	1,852,838
Cash flows from investing activities: interest income	688	982
Cash flows from non-capital financing activities:		
Operating subsidies received from the Republic of Palau	2,711,627	19,983
Cash received from grantor agencies	50,425	327,990
Other non-capital activities	(297,471)	(68,970)
Net cash provided by non-capital financing activities	2,464,581	279,003
Cash flows from capital and related financing activities:		
Acquisition of utility plant	(4,142,824)	(2,934,936)
Principal payments on long-term debt	(2,546,085)	(1,715,733)
Interest paid on long-term debt	(1,257,917)	(1,347,751)
Proceeds from disposal of assets	1,759	---
Net cash used in capital and related financing activities	(7,945,067)	(5,998,420)
Net change in cash and cash equivalents	(398,242)	(3,865,597)
Cash and cash equivalents at beginning of year	9,805,090	13,670,687
Cash and cash equivalents at end of year	$ 9,406,848	$ 9,805,090

Supplemental information on noncash capital financing activities:

During the year ended September 30, 2024, PPUC increased its long-term debt to reflect a foreign exchange loss of $43,324 as non-operating expense on its SDR-denominated loan. Additionally, PPUC recorded addition in utility plant through an increase in long-term debt of $277,397.

During the year ended September 30, 2024, PPUC received a non-cash grants of fixed assets valued at $82,089. During the year ended September 30, 2023, PPUC received a non-cash grants of fixed assets and inventory valued at $123,500 and $48,134, respectively.

See accompanying notes.

Statements of Cash Flows, continued

	Year ended September 30, 2024	2023
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$(1,151,969)	$(4,913,026)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	4,897,654	4,872,336
Provision for uncollectible receivables	486,545	391,135
Pension expense	---	1,818,311
(Increase) decrease in assets:		
Receivables:		
Trade	(1,675,603)	(365,668)
Affiliate	(433,150)	3,620,845
Contracts	11,518	56,151
Other	(70,737)	205,263
Prepaid expenses	1,726,989	(501,994)
Inventory	2,857,094	(1,237,717)
Increase (decrease) in liabilities:		
Accounts payable	(2,436,185)	(1,783,845)
Accrued expenses	545,157	(177,763)
Due to fiduciary fund	(183,615)	20,493
Customer deposits	507,858	(151,683)
Net cash provided by operating activities	$5,081,556	$ 1,852,838

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

Statements of Fiduciary Net Position

	September 30, 2024	September 30, 2023
Asset		
Due from primary government	$226,216	$409,831
	$226,216	$409,831
Fiduciary Net Position		
Net position – restricted for subsidies	$226,216	$409,831
	$226,216	$409,831

See accompanying notes.

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

Statements of Changes in Fiduciary Net Position

	Year ended September 30, 2024	Year ended September 30, 2023
Additions:		
Revenues	$2,810,000	$2,450,000
Deductions:		
Expenses	2,993,615	2,429,507
Change in net position	(183,615)	20,493
Fiduciary net position at beginning of year	409,831	389,338
Fiduciary net position at end of year	$ 226,216	$ 409,831

See accompanying notes.

1. Organization

The Palau Public Utilities Corporation (PPUC), 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 PPUC 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.

Primary Government Financial Statements

The primary government financial statements consist of the statement of net position, statement of revenues, expenses, and changes in net position and statement cashflows. Fiduciary activities are not included in the government-wide financial statements.

Fiduciary Fund Financial Statements

Separate financial statements are provided for fiduciary funds, specifically custodial funds. Fiduciary financial statements include assets, liabilities and activities of the Lifeline Subsidy and Subsidies under RPPL 11-18 and RPPL 11-24, for which PPUC has been legally designated to control but PPUC itself is not a beneficiary.

In July 2015, the ROP National Congress approved RPPL 9-46, authorizing PPUC to receive appropriations from the ROP to subsidize electrical power usage for eligible households under the life-line rate category (0–150 kWh). This assistance is referred to as the “Lifeline Subsidy.” Eligibility criteria are based on the poverty threshold defined in the Analysis of the 2006 Household Income and Expenditure Survey Report, as updated.

In January 2017, RPPL 10-1 was approved with an update to Section 18 of RPPL 9-46 which states that Lifeline Subsidy shall also subsidize water and wastewater usage for eligible households with consumption between 0 and 5,000 gallons. Available funds for the water and wastewater component of the subsidy program shall also be utilized to subsidize Angaur State customers retroactive to January 2016 until such time as water quality improved, as confirmed by the EQPB, and provided that associated billings that have been paid shall be credited to the customers’ future service billings including electrical power.

1. Organization, continued

Fiduciary Fund Financial Statements, continued

RPPL 11-18 was enacted to fund the payment of PPUC fuel expenses arising from the PPUC Automatic Fuel Price Adjustment Clause (AFPAC) in 2022. The law provides PPUC customers with a $0.10 per kWh credit under the AFPAC rate, applicable to up to 500 kWh per month for residential customers. RPPL 11-31 and 11-24 was enacted for the same purpose as RPPL 11-18, with appropriations totaling $2,810,000 and $1,600,000 for the fiscal years ended September 30, 2024 and 2023, respectively.

During the year ended September 30, 2024, PPUC received $2,810,000, which included funding for the Lifeline Subsidy Program, the $0.10 per kWh credit for PPUC residential customers, and subsidies for WWO residential customers. The full amount received was disbursed during year. An additional $183,615 was utilized from funding provided for the year ended September 30, 2023. As of September 30, 2024, the excess receipts totaling $226,216 were reported as due to the fiduciary fund and due from PPUC in the accompanying primary government statement of net position and fiduciary net position, respectively.

During the year ended September 30, 2023, PPUC received $2,450,000, which included funding for the Lifeline Subsidy, the $0.10 per kWh credit for PPUC residential customers, and subsidies for WWO residential customers. A total of $2,429,507 was disbursed relating to these mandates. As of September 30, 2023, the excess receipt of $409,831 was reported as due to fiduciary fund and due from PPUC in the accompanying primary government statement of net position and fiduciary net position, respectively.

2. Summary of Significant Accounting Policies

The accounting policies of PPUC conform to accounting principles generally accepted in the United States of America, 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.

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

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

- Restricted: Nonexpendable - net position subject to externally imposed stipulations that requires PPUC to maintain such permanently. Expendable - net position whose use by PPUC is subject to externally imposed stipulations that can be fulfilled by actions of PPUC pursuant to those stipulations or that expire by the passage of time. At September 30, 2024 and 2023, PPUC does not have restricted net position.

2. Summary of Significant Accounting Policies, continued

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

Basis of Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and time certificates of deposit with original maturities of three months or less.

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

As of September 30, 2024 and 2023, cash and cash equivalents were $9,406,848 and $9,805,090, respectively, and the corresponding bank balances were $9,522,775 and $11,322,998, respectively, that are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2024 and 2023, bank deposits of $750,000 were subject to the FDIC insurance coverage limits. PPUC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage and deposits in financial institutions not subject to FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables and Allowance for Uncollectable Accounts

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

2. Summary of Significant Accounting Policies, continued

Inventory

Inventories of fuel and supplies are stated at the lower of cost (first-in, first-out) or market (net realizable value). Allowance for inventory obsolescence is provided for supplies that are determined to be potentially unusable.

Utility Plant and Depreciation

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

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

2. Summary of Significant Accounting Policies, continued

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. PPUC recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents PPUC's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a cost-sharing multi-employer pension plan, measured one year prior to fiscal year-end and rolled forward. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred.

Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense over 5 years beginning with the period in which the difference occurred.

Revenue

Sales of electricity, water and wastewater services are recorded as billed to customers on a monthly cycle billing basis. For electricity billings, PPUC factors a variable fuel surcharge into its monthly billings to recover the costs of fuel. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing.

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses include all direct and administrative revenues and expenses associated with the generation and distribution of electricity and water and the provision of wastewater services to customers in the ROP. Nonoperating revenues and expenses result from investing and financing activities, including operating and capital grants from other governmental entities.

Compensated Absences

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

2. Summary of Significant Accounting Policies, continued

Taxes

Based on enactment of RPPL 11-11, effective January 1, 2023 under section 1221(g) of subchapter III of Chapter 12, the company is subject to the compulsory application for Palau Goods and Services Tax (PGST) registration. Additionally, every PGST-registered entity will be subject to Business Profit Tax (BPT). BPT allows an entity to carry forward losses during its tax year to offset future profits for the next 4 years.

PGST is imposed at the rate of 10% of revenues collected (output tax), net of input tax credit which is PGST portion charged to PPUC by its vendors for goods and services. PPUC does not record PGST revenue or expense. The output tax and input tax are recorded in net as a component of accrued liability.

For the years ended September 30, 2024 and 2023, PPUC recorded output tax of $4,030,530 and $2,720,443, respectively, assessed for its customers and input tax of $4,061,480 and $1,871,255, respectively, assessed by its vendors, which resulted in a net PGST refund of $30,950 and net PGST due of $849,188, respectively. As of September 30, 2024 and 2023, the balance of $527,191 and $2,633, respectively, is included as a component of accrued liability in the accompanying statement of net position.

BPT is calculated as 12% of taxable income. For the years ended September 30, 2024 and 2023, no provision for BPT is recognized as the taxable income is zero.

Recently Adopted Accounting Pronouncements

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This statement provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB’s review of recent pronouncements. The provisions of GASB Statement No. 99 that were effective for the year ended September 30, 2024 are related to:

- Modification of guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures.

- Guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

The implementation of the aforementioned provisions of GASB Statement No. 99 during the year ended September 30, 2024 did not have a material effect on the accompanying financial statements.

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

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

The implementation of GASB Statement No. 100 did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

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

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

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale.

A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital assets being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for fiscal year ending September 30, 2026.

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

3. Grants

PPUC is a subrecipient of federal grants received by the ROP from a U.S. federal agency. For the years ended September 30, 2024 and 2023, PPUC received grants of $71,199 and $18,500, respectively.

For the years ended September 30, 2024 and 2023, PPUC also received a combination of cash and non-cash grants totaling $61,315 and $481,124, respectively, from New Zealand Ministry of Foreign Affairs and Trade, Japan International Cooperation Agency (JICA) and Italian Ministry of Government, Land and Sea through Palau International Coral Reef Center (PICRC).

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

4. Receivable from a Local Bank

At September 30, 2024 and 2023, 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, 2024 and 2023.

5. Inventory

Inventory at September 30, 2024 and 2023, consists of the following:

	2024	2023
Generation parts and supplies	$ 7,169,522	$ 6,723,750
Fuel	2,704,148	5,815,141
Water distribution parts and supplies	891,320	973,629
Lubricants	85,219	36,918
Chemicals	65,538	223,403
	10,915,747	13,772,841
Allowance for slow moving and obsolete inventory	(544,134)	(544,134)
	$10,371,613	$13,228,707

6. Utility Plant

Utility plant consists of the following detailed balances at September 30, 2024 and 2023:

	Estimated Useful Lives	Balance at October 1, 2023	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2024
Depreciable utility plant:					
Electric plant	3 - 25 years	$ 37,192,702	$ ---	$(539,844)	$ 36,652,858
Water system	20 years	42,680,706	1,881,875	(1,458,339)	43,104,242
Sewer system	20 years	31,351,953	56,829	---	31,408,782
General support equipment	2 - 30 years	29,410,041	2,922,370	(388,403)	31,944,008
Administrative equipment	2 - 10 years	698,672	20,344	(802)	718,214
		141,334,074	4,881,418	(2,387,388)	143,828,104
Less accumulated depreciation		(92,053,701)	(4,897,654)	440,068	(96,511,287)
		49,280,373	(16,236)	(1,947,320)	47,316,817
Non-depreciable utility plant:					
Construction in progress		15,115,529	3,919,477	(2,393,514)	16,641,492
		$ 64,395,902	$ 3,903,241	$(4,340,834)	$ 63,958,309

	Estimated Useful Lives	Balance at October 1, 2022	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2023
Depreciable utility plant:					
Electric plant	3 - 25 years	$ 35,962,116	$1,230,586	$ ---	$ 37,192,702
Water system	20 years	42,153,283	527,423	---	42,680,706
Sewer system	20 years	31,239,254	112,699	---	31,351,953
General support equipment	2 - 30 years	28,866,713	585,728	(42,400)	29,410,041
Administrative equipment	2 - 10 years	718,044	32,726	(52,098)	698,672
		138,939,410	2,489,162	(94,498)	141,334,074
Less accumulated depreciation		(87,261,719)	(4,872,336)	80,354	(92,053,701)
		51,677,691	(2,383,174)	(14,144)	49,280,373
Non-depreciable utility plant:					
Construction in progress		14,546,255	2,491,358	(1,922,084)	15,115,529
		$ 66,223,946	$ 108,184	$(1,936,228)	$ 64,395,902

7. Long-Term Debt

A. Long-Term Debt

	2024	2023
On September 4, 2006, PPUC entered into a loan with a foreign bank not to exceed $7,000,000 with interest at 3.5% per annum, due on December 11, 2026, to finance the purchase of portable generators, a crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators. The loan is guaranteed by the ROP and is to be repaid in thirty-five consecutive semi-annual principal installments of $200,000 plus interest; the first installment being repaid on the last day of the thirty-sixth month from the date of the initial advance and thereafter semi-annually on the last day of each successive six-month period, until fully paid.	$1,000,000	$ 1,400,000
On March 28, 2014, PPUC entered into two loans with the Asia Development Bank, (ADB) passed through ROP to finance sanitation projects in the Koror and Airai areas. The first loan is for $26,900,000 for twenty years with grace period of 5 years and bears interest equal to the sum of LIBOR plus 0.60% and a maturity premium of 0.10%. Effective interest rates as of September 30, 2024 and 2023 were 5.70% and 4.97%, respectively. Principal is to be repaid semi-annually beginning April 1, 2018 at 2.5% of the total principal amount outstanding on each payment date. The second loan is for 1,258,000 Special Drawing Rights for twenty years with grace period of 8 years and bears interest at 1% per annum during the period prior to the first principal payment date and 1.5% per annum thereafter. Principal is to be repaid in semi-annual installments of $37,040 beginning April 1, 2021. The loans are guaranteed by the ROP.	19,256,772	21,082,136
On December 10, 2020, PPUC entered into two loans with ADB, passed through ROP, to improve financial sustainability. The initial loan is for $5,000,000 for twenty years with grace period of 5 years and bears interest of 2% per annum during the grace period and thereafter. Principal is to be repaid semi-annually beginning June 1, 2026. The signing date for the second loan of $5 million was on August 15, 2022 for also twenty years with grace period of 5 years and bears interest of 2% per annum during the grace period and thereafter. The loans are guaranteed by the ROP.	10,000,000	10,000,000
Total long-term debt	30,256,772	32,482,136
Less current maturities	(1,790,499)	(1,826,038)
	$28,466,273	$30,656,098

7. Long-Term Debt, continued

A. Long-Term Debt, continued

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

Year ending September 30,	Principal	Interest	Total
2025	$ 1,790,499	$1,224,769	$ 3,015,268
2026	1,884,691	1,132,322	3,017,013
2027	1,844,144	1,038,237	2,882,381
2028	1,894,144	954,927	2,849,071
2029	1,894,144	864,716	2,758,860
2030 - 2034	9,470,721	3,012,028	12,482,749
2035 - 2039	7,483,711	936,636	8,420,347
2040 - 2044	2,847,350	254,852	3,102,202
2045 - 2047	1,147,368	29,236	1,176,604
	$30,256,772	$9,447,723	$39,704,495

Movements in long-term bank debt for the years ended September 30, 2024 and 2023, are as follows:

	Balance at October 1, 2023	Additions	Repayments	Balance at September 30, 2024	Balance Due in One Year
Long-term debt	$32,482,136	$ 320,721	$(2,546,085)	$30,256,772	$1,790,499

	Balance at October 1, 2022	Additions	Repayments	Balance at September 30, 2023	Balance Due in One Year
Long-term debt	$34,197,869	$ ---	$(1,715,733)	$32,482,136	$1,826,038

Debt Covenants

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

7. Long-Term Debt, continued

A. Long-Term Debt, continued

Debt Covenants, continued

The loan with ADB through ROP include certain covenants under articles 2 and 4 of the loan agreement which generally requires PPUC to carry out sanitation projects in the Koror and Airai areas with due diligence and efficiency and with sound applicable technical, financial, business, and development practices. The covenants also require PPUC to apply all proceeds of the loans to the financing of expenditures on the project in accordance with the provisions of the loan agreements and this project, and shall ensure that all items of expenditures financed out of such proceeds are used exclusively in the carrying out of the project.

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

Management is of the opinion that except for the non-compliance with paragraph 14, Schedule 5 requiring certain revenue levels for the WWO division, PPUC has complied with the covenants for the years ended September 30, 2024 and 2023.

B. Other Long-Term Liabilities

Changes in other long-term liabilities during the years ended September 30, 2024 and 2023 were as follows:

	Balance at October 1, 2023	Increases	Decreases	Balance at September 30, 2024	Balance Due in One Year
Net pension liability	$22,195,116	$ ---	$ ---	$22,195,116	$ ---

	Balance at October 1, 2023	Increases	Decreases	Balance at September 30, 2024	Balance Due in One Year
Net pension liability	$26,362,690	$ ---	$(4,167,574)	$22,195,116	$ ---

8. Pension Plan

Plan Description

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

General

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

A single actuarial valuation report is performed for the Plan annually covering all plan members and the same contribution rate applies to each employer. The Plan has not issued an actuarial valuation as of September 30, 2023, and as such the total pension liability and related deferred outflow and deferred inflow of resources as of September 30, 2024 remained unchanged from the amounts recorded as of September 30, 2023, which were determined by an actuarial valuation as of October 1, 2021.

Membership

The ROP National Government, ROP State Governments and ROP public corporations, quasi-governmental organizations and other public entities of the National and State Governments of ROP, participate in the Plan. Membership consisted of the following as of October 1, 2021 (the valuation date):

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

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.

8. Pension Plan, continued

Service

Vesting Service: Includes membership service and prior service credit.

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

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

Pension Benefits

Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Pension Fund receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability.

Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board. Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions. Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty-year mandatory service provisions. These provisions were restored through RPPL 8-10 in October 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

8. Pension Plan, continued

Pension Benefits, continued

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

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

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.

8. Pension Plan, continued

Pension Benefits, continued

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.

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

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

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

8. Pension Plan, continued

Pension Benefits, continued

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 Plan through payroll deduction.

Employer and Other Contributions

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

PPUC contributed $324,561and $304,639 to the Plan during the years ended September 30, 2024 and 2023, respectively, which were equal to the required statutory contributions for the respective year then ended.

8. Pension Plan, continued

Actuarial Assumptions and Other Inputs

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

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method
Amortization Method:	Level dollar, open with remaining amortization period of 30 years
Asset Valuation Method:	Market Value of Assets
Long-term Expected Rate of Return:	6.74% per year, net of investment expenses, including price inflation
Municipal Bond Index Rate:	3.82%
Year fiduciary net position is projected to be depleted:	2027
Price Inflation:	2.5% per year
Interest on Member Contributions:	5.0% per year
Salary Increase:	3.0% per year
Expenses:	$300,000 annually added to normal cost
Mortality:	RP 2000 Combined Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years
Termination of Employment:	5% for ages 20 to 39; none for all other ages

Disability:

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

8. Pension Plan, continued

Actuarial Assumptions and Other Inputs, continued

Retirement Age:	100% at age 60
Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor
Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.
Duty vs Non-duty related disability:	100% Duty related
Refund of Contributions:	80% of terminated vested members elect a refund of contributions

Investment Rate of Return

The long-term expected rate of return on the Plan's investments of 5.95% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

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

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

Discount Rate

The discount rate used to measure the total pension liability was 3.86% at the current measurement date and 2.23% at the prior measurement date. The discount rate was determined using the current assumed rate of return of 6.74% until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2026. For years on or after 2027, the Municipal Bond Index Rate of 3.82% was used. The Municipal Bond Index Rate from the prior measurement date was 2.17%.

8. Pension Plan, continued

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of September 30, 2024 and 2023, calculated using the discount rate of 3.86%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (2.86%) or 1.00% higher (4.86%) from the current rate.

	1% Decrease 2.86%	Current Single Discount Rate Assumption 3.86%	1% Increase 4.86%
EPO	$15,443,997	$13,459,403	$11,810,956
WWO	10,023,797	8,735,713	7,665,802
	$25,467,794	$22,195,116	$19,476,758

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

Pension Liability

As of September 30, 2024 and 2023, PPUC's proportionate share of the ROP net pension liability is as follows:

EPO	$13,459,403
WWO	8,735,713
	$22,195,116

As of September 30, 2024 and 2023, PPUC's proportion of the ROP overall liability is as follows:

EPO	5.11%
WWO	3.32%

Pension Expense

For the years ended September 30, 2024 and 2023, PPUC recognized pension expense as follows:

	2024	2023
EPO	$184,700	$1,360,002
WWO	139,861	754,706
	$324,561	$2,114,708

8. Pension Plan, continued

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

Deferred Outflows and Inflows of Resources

At September 30, 2024 and 2023, PPUC reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
EPO:		
Changes of assumptions	$2,158,954	$3,357,429
Net difference between projected and actual earnings on pension plan investments	363,861	72,168
Difference between expected and actual experience	173,739	2,069,898
Contributions subsequent to the measurement date	184,737	---
Changes in proportion and difference between EPO contributions and proportionate share of contributions	1,805,546	529,505
	4,686,837	6,029,000
WWO:		
Changes of assumptions	1,401,251	2,179,111
Net difference between projected and actual earnings on pension plan investments	236,161	46,840
Difference between expected and actual experience	112,764	1,343,450
Contributions subsequent to the measurement date	119,902	---
Changes in proportion and difference between WWO contributions and proportionate share of contributions	538,106	221,213
	2,408,184	3,790,614
	$7,095,021	$9,819,614

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2023 will be recognized in pension expense as follows:

8. Pension Plan, continued

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

Deferred Outflows and Inflows of Resources, continued

Year Ending September 30,	
EPO:	
2025	$ 101,879
2026	(60,246)
2027	(128,185)
2028	(444,986)
2029	(713,844)
Thereafter	(281,518)
	(1,526,900)
WWO:	
2025	(85,348)
2026	(121,988)
2027	(150,873)
2028	(425,930)
2029	(547,249)
Thereafter	(170,944)
	(1,502,332)
	$(3,029,232)

Average Remaining Service Life

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires that changes arising from differences between expected and actual experience and from changes in actual assumptions be recognized in pension expense over the average remaining service life of all employees provided with benefits through the pension plan (active and inactive). These differences are considered on a pooled basis, rather than an individual basis, in order to reflect the expected remaining service life of the entire pool of employees, with the understanding that inactive employees have no remaining service period. As of September 30, 2022 and 2021, the average of the expected remaining service lives of all employees as calculated by the Plan's independent actuaries was 6.82 years, 7.03 years as of September 30, 2019 and 2018, 6.83 years as of September 30, 2017, 2016 and 2015, and 6.20 years as of September 30, 2014.

9. Related Party Transactions

Sale of Utility Services

Utility services of $8,316,468 and $8,639,985 were rendered to the ROP for the years ended September 30, 2024 and 2023, respectively. PPUC provides utility services to the ROP at the same rates charged to third parties.

Receivable from affiliate of $66,821 and $190,599 at September 30, 2024 and 2023, respectively, are due from the ROP for utility services.

Asian Development Bank (ADB) Loans Passed through the ROP

On March 28, 2014, PPUC entered into two loans with the Asian Development Bank (ADB) passed through ROP to finance sanitation projects in Koror and Airai areas. On December 10, 2020, PPUC entered into another two loans with the ADB which are also passed through ROP, to improve financial sustainability.

Subsidies from the ROP

As part of the transfer agreement of the WWO (see note 1), the ROP was to transfer all grants, appropriations and authorized loan proceeds to PPUC to cover WWO operating costs. For the years ended September 30, 2024 and 2023, PPUC recognized $2,436,627 and $26,220, respectively, of WWO operating subsidies from the ROP.

During the year ended September 30, 2024, PPUC received $275,000 from ROP for the water pump project, dam project, and the power line extension.

During the year ended September 30, 2023, PPUC received $19,983 from ROP for concrete pole footing of Ngerdebsiu Line Extension.

10. Commitments

Lease

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

Fuel Supply

In December 2017, PPUC entered into a 5-year fuel supply contract with Blue Bay Petroleum Inc. effective until December 31, 2022 with an extension of one (1) year until December 31, 2023. In January 2024 PPUC entered into a new 5-year fuel supply contract with the same vendor for the purchase of production fuel and lubricants.

10. Commitments, continued

Fuel Supply, continued

In March 2018, PPUC entered into a 3-year fuel supply contract IP&E effective until March 31, 2021 for the purchase of production and vehicle fuels which was extended to March 31, 2023. On January 23, 2023, PPUC entered into a new 5-year fuel supply contract which superseded the extended contract. The purchase price is based on movements of the base price for fuel and lubricants.

Capital Commitments

As of September 30, 2024, PPUC has various on-going construction contracts with a $17.65 million contract price of which $1.01 million remained as outstanding commitments.

Renewable Energy

PPUC entered into a renewable energy purchase agreement to procure electric energy and related products equivalent to 55.0 GWh per year, in support of achieving the national renewable energy target of 45% under the Intended Nationally Determined Contribution (INDC). The commercial operation date of the solar plants was April 30, 2024 for an initial term of 20. The agreement specifies a minimum expected annual production for each contract year, which must be met to avoid production shortfall penalties. The total minimum renewable energy purchase commitment is 20.00 million kWh for Years 1 through 10 and 19.00 million kWh for Years 11 through 20.

At September 30, 2024, the minimum future renewable energy purchases are as follows:

Year ending September 30,	Amount
2025	$ 2,850,000
2026	2,850,000
2027	2,850,000
2028	2,850,000
2029	2,850,000
2030 - 2034	14,190,625
2035 - 2039	13,537,500
2040 - 2044	12,409,375
	$54,387,500

11. Contingencies

Utility Charge Credits

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

Litigation

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

12. Risk Management

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

Required Supplementary Information

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

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

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Republic of Palau net pension liability	$263,365,274	$263,365,274	$304,866,042	$344,384,167	$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	$ 22,195,116	$ 22,195,116	$ 26,362,690	$ 27,696,488	$ 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	8.43%	8.43%	8.65%	8.04%	8.03%	7.96%	6.96%	6.42%	6.34%	6.43%
PPUC's covered-employee payroll*	$ 4,930,144	$ 4,930,144	$ 5,266,023	$ 4,932,300	$ 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	450.19%	450.19%	500.62%	561.53%	516.20%	427.62%	447.75%	471.00%	444.45%	434.54%
Plan fiduciary net position as a percentage of the total pension liability	8.69%	8.69%	10.47%	8.42%	8.26%	10.24%	10.18%	10.55%	11.54%	14.01%

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

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

Schedule 2
Schedule of Pension Contributions
Last 10 Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$1,436,644	$1,436,644	$1,337,570	$1,267,039	$1,131,733	$1,378,558	$1,195,686	$ 925,093	$ 691,501	$ 683,121
Contribution in relation to the actuarially determined contribution	$ 324,561	$ 304,639	$ 312,882	$ 295,938	$ 287,987	$ 280,290	$ 241,937	$ 201,110	$ 183,373	$ 178,010
Contribution deficiency	$1,112,083	$1,132,005	$1,024,688	$ 971,101	$ 843,746	$1,098,268	$ 953,749	$ 723,983	$ 508,128	$ 505,111
PPUC's covered-employee payroll *	$5,077,317	$5,077,317	$5,266,023	$4,932,300	$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	6.39%	6.00%	5.94%	6.00%	6.00%	6.00%	6.00%	5.92%	5.96%	5.89%

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

Supplementary Information

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

Schedule 3
Combining Statement of Net Position

September 30, 2024

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Assets and Deferred Outflows of Resources				
Utility plant:				
Depreciable utility plant	$21,075,904	$26,240,913	$ ---	$47,316,817
Non-depreciable utility plant	1,657,735	14,983,757	---	16,641,492
Net utility plant	22,733,639	41,224,670	---	63,958,309
Current assets:				
Cash and cash equivalents	8,962,261	444,587	---	9,406,848
Receivables:				
Trade	4,797,784	2,222,216	---	7,020,000
Affiliate	19,636,590	556,928	(19,569,769)	623,749
Contracts	119,981	87,711	---	207,692
Other	17,308	72,499	---	89,807
	24,571,663	2,939,354	(19,569,769)	7,941,248
Less allowance for doubtful accounts	(1,887,463)	(1,470,741)	---	(3,358,204)
Net receivables	22,684,200	1,468,613	(19,569,769)	4,583,044
Prepaid expenses	356,858	59,902	---	416,760
Inventory, net	9,439,584	932,029	---	10,371,613
Total current assets	41,442,903	2,905,131	(19,569,769)	24,778,265
Other non-current assets:				
Contracts receivable, net of current portion	720,000	---	(720,000)	---
Total assets	64,896,542	44,129,801	(20,289,769)	88,736,574
Deferred outflows of resources from pension	4,686,837	2,408,184	---	7,095,021
	$69,583,379	$46,537,985	$(20,289,769)	$95,831,595

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

Schedule 3, continued
Combining Statement of Net Position, continued

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Liabilities, Deferred Inflows of Resources and Net Position				
Net position:				
Net investment in utility plant	$22,733,639	$21,487,898	$ ---	$44,221,537
Unrestricted	13,767,330	(34,707,465)	---	(20,940,135)
Total net position	36,500,969	(13,219,567)	---	23,281,402
Current liabilities:				
Current portion of long-term debt	400,000	1,390,499	---	1,790,499
Accounts payable	5,484,793	20,991,544	(19,569,769)	6,906,568
Accrued expenses	902,051	394,109	---	1,296,160
Due to fiduciary fund	63,019	163,197	---	226,216
Customer deposits	1,544,144	305,603	---	1,849,747
Total current liabilities	8,394,007	23,244,952	(19,569,769)	12,069,190
Long-term debt, net of current portion	5,200,000	23,986,273	(720,000)	28,466,273
Net pension liability	13,459,403	8,735,713	---	22,195,116
Total liabilities	27,053,410	55,966,938	(20,289,769)	62,730,579
Deferred inflows of resources from pension	6,029,000	3,790,614	---	9,819,614
	$69,583,379	$46,537,985	$(20,289,769)	$95,831,595

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

Schedule 3
Combining Statement of Net Position, continued

September 30, 2023

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Assets and Deferred Outflows of Resources				
Utility plant:				
Depreciable utility plant	$22,790,298	$26,490,075	$ ---	$49,280,373
Non-depreciable utility plant	1,389,843	13,725,686	---	15,115,529
Net utility plant	24,180,141	40,215,761	---	64,395,902
Current assets:				
Cash and cash equivalents	7,176,466	2,628,624	---	9,805,090
Receivables:				
Trade	3,270,129	2,074,268	---	5,344,397
Affiliate	15,353,192	---	(15,162,593)	190,599
Contracts	142,481	76,729	---	219,210
Other	18,004	1,066	---	19,070
	18,783,806	2,152,063	(15,162,593)	5,773,276
Less allowance for doubtful accounts	(1,650,337)	(1,221,322)	---	(2,871,659)
Net receivables	17,133,469	930,741	(15,162,593)	2,901,617
Prepaid expenses	1,231,058	912,691	---	2,143,749
Inventory, net	12,031,675	1,197,032	---	13,228,707
Total current assets	37,572,668	5,669,088	(15,162,593)	28,079,163
Other non-current assets:				
Contracts receivable, net of current portion	720,000	---	(720,000)	---
Total assets	62,472,809	45,884,849	(15,882,593)	92,475,065
Deferred outflows of resources from pension	4,686,837	2,408,184	---	7,095,021
	$67,159,646	$48,293,033	$(15,882,593)	$99,570,086

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

Schedule 3, continued
Combining Statement of Net Position, continued

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Liabilities, Deferred Inflows of Resources and Net Position				
Net position:				
Net investment in utility plant	$23,508,141	$19,133,625	$ ---	$42,641,766
Unrestricted	7,839,784	(27,253,806)	---	(19,414,022)
Total net position	31,347,925	(8,120,181)	---	23,227,744
Current liabilities:				
Current portion of long-term debt	400,000	1,426,038	---	1,826,038
Accounts payable	8,309,965	16,195,381	(15,162,593)	9,342,753
Accrued expenses	453,532	297,471	---	751,003
Due to fiduciary fund	385,884	23,947	---	409,831
Customer deposits	1,173,937	167,952	---	1,341,889
Total current liabilities	10,723,318	18,110,789	(15,162,593)	13,671,514
Long-term debt, net of current portion	5,600,000	25,776,098	(720,000)	30,656,098
Net pension liability	13,459,403	8,735,713	---	22,195,116
Total liabilities	29,782,721	52,622,600	(15,882,593)	66,522,728
Deferred inflows of resources from pension	6,029,000	3,790,614	---	9,819,614
	$67,159,646	$48,293,033	$(15,882,593)	$99,570,086

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

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

Year ended September 30, 2024

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Operating revenues:				
Power	$31,570,704	$ ---	$(4,047,902)	$27,522,802
Water	---	3,391,713	(118,657)	3,273,056
Wastewater	---	1,798,058	---	1,798,058
Other	2,797,256	356,890	---	3,154,146
Total operating revenues	34,367,960	5,546,661	(4,166,559)	35,748,062
Provision for uncollectible receivables	(237,126)	(249,419)	---	(486,545)
Net operating revenues	34,130,834	5,297,242	(4,166,559)	35,261,517
Operating expenses:				
Generation - fuel	17,047,319	---	---	17,047,319
Depreciation	2,338,498	2,559,156	---	4,897,654
Administration	1,840,728	1,390,600	(68,619)	3,162,709
Water operations	---	6,147,106	(3,171,616)	2,975,490
Generation - other cost	2,484,614	---	(13,373)	2,471,241
Renewable energy	2,438,121	---	(10,905)	2,427,216
Distribution and transmission	1,816,958	---	(42,250)	1,774,708
Engineering Services	894,165	---	(12,112)	882,053
Wastewater operations	---	1,622,780	(847,684)	775,096
Total operating expenses	28,860,403	11,719,642	(4,166,559)	36,413,486
Operating income (loss)	5,270,431	(6,422,400)	---	(1,151,969)
Nonoperating revenues (expenses):				
Operating subsidies from the Republic of Palau	80,000	2,631,627	---	2,711,627
Grants	28,000	104,514	---	132,514
Interest income	528	160	---	688
Interest expense	(138,122)	(1,119,795)	---	(1,257,917)
Loss on disposal of utility plant	(40,490)	---	---	(40,490)
Others	(47,303)	(293,492)	---	(340,795)
Total nonoperating expenses, net	(117,387)	1,323,014	---	1,205,627
Change in net position	5,153,044	(5,099,386)	---	53,658
Net position at beginning of year	31,347,925	(8,120,181)	---	23,227,744
Net position at end of year	$36,500,969	$(13,219,567)	$ ---	$23,281,402

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

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

Year ended September 30, 2023

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Operating revenues:				
Power	$29,883,684	$ ---	$(3,531,159)	$26,352,525
Water	---	3,337,803	(116,264)	3,221,539
Wastewater	---	1,838,287	---	1,838,287
Other	2,296,886	320,348	---	2,617,234
Total operating revenues	32,180,570	5,496,438	(3,647,423)	34,029,585
Provision for uncollectible receivables	(211,207)	(179,928)	---	(391,135)
Net operating revenues	31,969,363	5,316,510	(3,647,423)	33,638,450
Operating expenses:				
Generation - fuel	19,425,829	---	---	19,425,829
Depreciation	2,402,310	2,470,026	---	4,872,336
Generation - other cost	4,269,310	---	(13,044)	4,256,266
Administration	2,149,860	1,494,318	(75,928)	3,568,250
Water operations	---	5,550,747	(2,722,345)	2,828,402
Distribution and transmission	1,900,452	---	(38,040)	1,862,412
Wastewater operations	---	1,621,019	(778,468)	842,551
Engineering Services	632,378	---	(9,799)	622,579
Renewable energy	282,650	---	(9,799)	272,851
Total operating expenses	31,062,789	11,136,110	(3,647,423)	38,551,476
Operating income (loss)	906,574	(5,819,600)	---	(4,913,026)
Nonoperating revenues (expenses):				
Grants	10,730	488,894	---	499,624
Operating subsidies from the Republic of Palau	19,983	---	---	19,983
Interest income	584	398	---	982
Interest expense	(149,761)	(1,197,990)	---	(1,347,751)
Loss on disposal of utility plant	(14,144)	---	---	(14,144)
Others	(43,563)	(25,407)	---	(68,970)
Total nonoperating expenses, net	(176,171)	(734,105)	---	(910,276)
Change in net position	730,403	(6,553,705)	---	(5,823,302)
Net position at beginning of year	30,617,522	(1,566,476)	---	29,051,046
Net position at end of year	$31,347,925	$(8,120,181)	$ ---	$23,227,744

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

Schedule 5
Combining Statement of Cash Flows

Year ended September 30, 2024

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Cash flows from operating activities:				
Cash received from customers	$28,627,445	$5,036,271	$ ---	$33,663,716
Cash payments to suppliers for goods and services	(21,449,962)	(160,255)	---	(21,610,217)
Cash payments to employees for services	(3,982,305)	(2,989,638)	---	(6,971,943)
Net cash provided by operating activities	3,195,178	1,886,378	---	5,081,556
Cash flows from investing activities:				
Interest income	528	160	---	688
Cash flows from non-capital financing activities:				
Operating subsidies from the Republic of Palau	80,000	2,631,627	---	2,711,627
Cash received from grantor agencies	17,110	33,315	---	50,425
Other non-capital activities	(47,303)	(250,168)	---	(297,471)
Net cash provided by non-capital financing activities	49,807	2,414,774	---	2,464,581
Cash flows from capital and related financing activities:				
Acquisition of utility plant	(923,355)	(3,219,469)	---	(4,142,824)
Principal payment on long-term debt	(400,000)	(2,146,085)	---	(2,546,085)
Interest paid on long-term debt	(138,122)	(1,119,795)	---	(1,257,917)
Proceeds from disposal of assets	1,759	---	---	1,759
Net cash used in capital and related financing activities	(1,459,718)	(6,485,349)	---	(7,945,067)
Net change in cash and cash equivalents	1,785,795	(2,184,037)	---	(398,242)
Cash and cash equivalents at beginning of year	7,176,466	2,628,624	---	9,805,090
Cash and cash equivalents at end of year	$ 8,962,261	$ 444,587	$ ---	$ 9,406,848

Supplemental information on noncash capital and related financing activities:

During the year ended September 30, 2024, PPUC increased its long-term debt to reflect a foreign exchange loss of $43,324 as non-operating expense on its SDR-denominated loan. Additionally, PPUC recorded addition in utility plant through an increase in long-term debt of $277,397.

During the year ended September 30, 2024, PPUC received a non-cash grants of fixed assets valued at $82,089.

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

Schedule 5, continued
Combining Statement of Cash Flows, continued

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$5,270,431	$(6,422,400)	$ ---	$(1,151,969)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	2,338,498	2,559,156	---	4,897,654
Provision for uncollectible receivables	237,126	249,419	---	486,545
(Increase) decrease in assets:				
Receivables:				
Trade	(1,527,655)	(147,948)	---	(1,675,603)
Affiliate	(4,283,398)	(556,928)	4,407,176	(433,150)
Contracts	22,500	(10,982)	---	11,518
Other	696	(71,433)	---	(70,737)
Prepaid expenses	874,200	852,789	---	1,726,989
Inventory	2,592,091	265,003	---	2,857,094
Increase (decrease) in liabilities:				
Accounts payable	(2,825,172)	4,796,163	(4,407,176)	(2,436,185)
Accrued expenses	448,519	96,638	---	545,157
Due to fiduciary fund	(322,865)	139,250	---	(183,615)
Customer deposits	370,207	137,651	---	507,858
Net cash provided by operating activities	$3,195,178	$1,886,378	$ ---	$ 5,081,556

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

Schedule 5
Combining Statement of Cash Flows

Year ended September 30, 2023

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Cash flows from operating activities:				
Cash received from customers	$28,703,825	$5,018,477	$ ---	$33,722,302
Cash payments to suppliers for goods and services	(24,081,333)	(2,090,977)	---	(26,172,310)
Cash payments to employees for services	(3,216,152)	(2,481,002)	---	(5,697,154)
Net cash provided by operating activities	1,406,340	446,498	---	1,852,838
Cash flows from investing activities:				
Interest income	584	398	---	982
Cash flows from non-capital financing activities:				
Appropriations received from the Republic of Palau	19,983	---	---	19,983
Cash received from grantor agencies	10,730	317,260	---	327,990
Other non-capital activities	(43,563)	(25,407)	---	(68,970)
Net cash (used in) provided by non-capital financing activities	(12,850)	291,853	---	279,003
Cash flows from capital and related financing activities:				
Principal payment on long-term debt	(400,000)	(1,315,733)	---	(1,715,733)
Transfer (out) in of loan proceeds	(4,100,000)	4,100,000	---	---
Interest paid on long-term debt	(149,761)	(1,197,990)	---	(1,347,751)
Acquisition of utility plant	(1,842,799)	(1,092,137)	---	(2,934,936)
Net cash (used in) provided by capital and related financing activities	(6,492,560)	494,140	---	(5,998,420)
Net change in cash and cash equivalents	(5,098,486)	1,232,889	---	(3,865,597)
Cash and cash equivalents at beginning of year	12,274,952	1,395,735	---	13,670,687
Cash and cash equivalents at end of year	$ 7,176,466	$2,628,624	$ ---	$ 9,805,090

Supplemental information on noncash capital and related financing activities:

During the year-ended September 30, 2023, PPUC received a non-cash grants of fixed assets and inventory valued at $123,500 and $48,134, respectively.

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

Schedule 5, continued
Combining Statement of Cash Flows, continued

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 906,574	$(5,819,600)	$ ---	$(4,913,026)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	2,402,310	2,470,026	---	4,872,336
Provision for uncollectible receivables	211,207	179,928	---	391,135
Pension expense	1,181,452	636,859	---	1,818,311
(Increase) decrease in assets:				
Receivables:				
Trade	291,143	(656,811)	---	(365,668)
Affiliate	(3,698,769)	---	7,319,614	3,620,845
Contracts	24,403	31,748	---	56,151
Other	29,863	175,400	---	205,263
Prepaid expenses	367,633	(869,627)	---	(501,994)
Inventory	(1,200,494)	(37,223)	---	(1,237,717)
Increase (decrease) in liabilities:				
Accounts payable	1,009,559	4,526,210	(7,319,614)	(1,783,845)
Accrued expenses	8,298	(186,061)	---	(177,763)
Due to fiduciary fund	(3,454)	23,947	---	20,493
Customer deposits	(123,385)	(28,298)	---	(151,683)
Net cash provided by operating activities	$1,406,340	$ 446,498	$ ---	$1,852,838

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

Schedule 6
Schedules of Revenues and Expenses (Before Elimination)

Year ended September 30, 2024

	Electric Power Operations	Water and Wastewater Operations
Operating revenues:		
Commercial	$12,306,534	$ 1,500,400
Residential	9,608,220	2,990,320
Government	1,910,087	128,446
Republic of Palau and component units	7,745,863	570,605
Other	2,797,256	356,890
	$34,367,960	$ 5,546,661
Operating expenses:		
Personnel costs:		
Salaries and wages	$ 3,405,924	$ 2,554,432
Employee benefits	512,266	382,843
Other employee benefits	93,338	62,110
Total personnel costs	4,011,528	2,999,385
Generation - fuel	17,047,319	---
Depreciation	2,338,495	2,559,156
Renewable	2,184,715	---
Repairs and maintenance	1,965,321	903,456
Gas and oil	207,279	125,419
Utilities	118,657	4,047,902
Professional services	108,295	53,611
Insurance	103,888	40,973
Small tools and equipment	87,978	131,199
Supplies	85,002	53,482
Communication	75,596	48,248
Rent	38,047	42,366
Water treatment chemicals	---	451,817
Others	488,283	262,628
	$28,860,403	$11,719,642

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

Schedule 6
Schedules of Revenues and Expenses (Before Elimination), continued

Year ended September 30, 2023

	Electric Power Operations	Water and Wastewater Operations
Operating revenues:		
Commercial	$10,443,822	$ 1,477,816
Residential	9,661,143	2,884,578
Government	1,800,987	151,443
Republic of Palau and component units	7,977,732	662,253
Other	2,296,886	320,348
	$32,180,570	$ 5,496,438
Operating expenses:		
Personnel costs:		
Salaries and wages	$ 3,224,456	$ 2,294,941
Employee benefits	496,970	362,693
Other employee benefits	109,322	66,589
Pension expense adjustment - GASB 68	1,181,452	636,859
Total personnel costs	5,012,200	3,361,082
Generation - fuel	19,425,829	---
Depreciation	2,402,310	2,470,026
Repairs and maintenance	2,941,093	625,744
Utilities	116,263	3,531,160
Small tools and equipment	105,862	104,038
Professional services	110,928	60,749
Gas and oil	188,136	105,431
Insurance	106,738	35,364
Supplies	75,141	57,448
Communication	70,291	45,887
Rent	41,215	34,873
Water treatment chemicals	---	353,511
Others	466,783	350,797
	$31,062,789	$11,136,110

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

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

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and the Board of Directors
Palau Public Utilities Corporation:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Palau Public Utilities Corporation (PPUC), which comprise the statement of net position as of September 30, 2024, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"), and have issued our report thereon dated May 31, 2026.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether PPUC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2024-001.

PPUC's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on PPUC's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Responses. PPUC's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Ernst + Young

May 31, 2026

Finding No.:	**2024-001**
Area:	Local Noncompliance – Cross – Subsidization Local Noncompliance – Rates; rate making process

Criteria:
In accordance with sound public utility financial management practices and generally accepted accounting principles, each utility enterprise fund should be financially self-sustaining, with revenues generated from ratepayers used solely for the operation, maintenance, and capital needs of the respective utility functions. Interfund transactions and cost allocations should be properly authorized, documented, and accurately recorded to ensure transparency and accountability. Regulatory guidance and utility oversight frameworks generally discourage cross-subsidization because it may distort rate structures and improperly shift costs between customer classes.

In addition, Republic of Palau Public Law (RPPL) 9-4, Section 412 (d) states that future water rates shall be assessed on the basis of quality and volume of water used. Wastewater rates shall be assessed on the basis of usage and the manner of such usage. Customers may be classified for the purpose of assessing water and wastewater rates in accordance with this policy. All future rates shall be designed on the basis of achieving full cost recovery, meeting PPUC's operational costs and recovering the cost of capital of PPUC.

Furthermore, Section 414 of the RPPL prohibits cross-subsidization between the water and wastewater operations and electricity generation operations.

Section 414 of RPPL 9-4 states the following:

(a) Water and wastewater operations shall be treated as a separate business segment from the electricity operations of PPUC. PPUC shall adopt an organizational structure delineating a chain of management for water and wastewater operations that is distinctively separate from electricity operations. Shared administrative costs and expertise shall be allocated to the two separate business segments based on the United States standard of cost accounting applicable to utilities.

(b) PPUC shall maintain two separate accounts within its general account for:
  (1) The electrical generation operations of PPUC; and
  (2) The water and wastewater operations of PPUC.

(c) The electricity generation operation of PPUC shall not be utilized to subsidize the water and wastewater operations of PPUC. The water and wastewater operations of PPUC shall not be utilized to subsidize the electrical generation operations of PPUC.

Finding No.: 2024-001, continued

Criteria, continued:

(d) Any surplus revenue generated by –
  (1) The electrical generation operations of PPUC shall remain in the account created for the electrical generation operations.
  (2) The water and wastewater operations of PPUC shall remain in the account created for the water and wastewater operations.
  (3) However, the Board may approve loan agreements specifying terms of repayment with interest for loans of surplus funds generated by either the water and wastewater operations or electricity operation to the other operation.

(e) Any grants from an outside entity that are provided to PPUC for the electricity generation operations shall be placed into the account for the electricity generation operation. Any grants from an outside entity that are provided to PPUC for water and wastewater operations shall be placed into the account for the water and wastewater operations.

(f) The electricity generation operations shall be responsible for its own operating costs and recovering the cost of its capital. The water and wastewater operations shall be responsible for its own operating costs and recovering the cost of its capital.

(g) Nothing in this section shall be interpreted to prohibit the development of shared services between the electricity generation operations and the water and wastewater operations that will result in lower costs to the consumer or increased revenue to the Corporation

Condition: The Company's water and wastewater operations (WWO) are experiencing severe liquidity constraints, as evidenced by current assets representing only 12% of its short-term obligations as of September 20, 2024. Additionally, the operations are in a significant negative working capital position, with current liabilities exceeding current assets by $20.34 million. Furthermore, the water and wastewater operations have an outstanding payable to the electric power operations amounting to $19.57 million as of September 30, 2024, increasing from a payable of $15.16 million as of September 30, 2023. These conditions indicate WWO's inability to sustain a separate operation based on current revenue generation, including subsidies from the ROP directly to reduce tariff charged to customer accounts under several programs.

Cause: The Company has established tariff rates for the WWO that are inadequate to recover the full cost of operations, resulting in recurring operating deficits. These deficits have weakened the operations' cash flows and contributed to the observed liquidity constraints, including negative working capital and the accumulation of outstanding payables.

Finding No.: 2024-001, continued

Effect: The cross-subsidization of utility operations may result in inaccurate utility rates, reduced financial transparency, improper use of restricted utility resources, and increased risk of noncompliance with applicable regulatory and financial reporting requirements. The continued imposition of tariff rates that are insufficient to recover operating costs has resulted in sustained financial losses, weakening the liquidity position of the WWO. This has led to negative working capital, an inability to meet short-term obligations, and the accumulation of significant intercompany payables. If not addressed, these conditions may impair the operations' ability to sustain service delivery, increase reliance on internal borrowings, and expose the Company to further financial and operational risks.

Recommendation: Management should conduct a comprehensive review of tariff structures for the WWO to ensure that rates are sufficient to recover the full cost of service and restore financial sustainability. This review should include detailed cost-of-service analyses, benchmarking against comparable utilities, and coordination with relevant regulatory authorities, as applicable. Management should implement measures to improve liquidity and mitigate financial strain, including strengthening cash flow management, optimizing operating costs, and establishing a structured plan to reduce and settle outstanding intercompany payables. In cases where legal or regulatory constraints limit the Company's ability to adjust tariff rates to cost-recovery levels, Management should formally seek financial support from the ROP National Government to subsidize operations. Such support should be aimed at sustaining service delivery and stabilizing operations until the water and wastewater segment achieves financial self-sufficiency.

Management Response: The Finding raises two issues: (1) Cross-subsidization of PPUC's water and wastewater operation ("WWO") by it electrical power operation ("EPO"); and (2) WWO tariff rates that are "inadequate to recover the full cost of operations, resulting in recurring operating deficits." In PPUC's view, these two matters are inextricably linked. The subject cross-subsidization is occurring in the form of unpaid electrical power billings to WWO by EPO. Of course, this electrical power that is being furnished by EPO is absolutely essential to WWO's ability to perform its core mission to provide basic water and wastewater services to the public. WWO consumes a high quantity of electricity in this process, and its power billings actually constitute its highest single non-labor expense category.

As to the WWO tariffs, it is correct that these rates are presently insufficient to generate revenue in amounts that would, among other things, enable WWO to make payment to EPO for its power billings. In more general terms, the rates are set at a level that is clearly non-compliant with PPUC's fundamental statutory mandate that they "shall be designed on the basis of achieving full cost recovery, meeting PPUC's operational costs, and recovering the cost of capital of PPUC."

Finding No.: **2024-001, continued**

Management Response, continued:

The report includes a recommendation that PPUC management "should conduct a comprehensive review of the tariff structures for the WWO to ensure that rates are sufficient to recover the full cost of service and restore financial sustainability." PPUC has in fact already carried out such a review, which resulted in the February 1, 2025 implementation of the first phase of a planned three-stage WWO tariff increase that had undergone the statutory adoption process, including approval by the Palau Energy and Water Administration ("PEWA"). In response to that implementation, the Olbiil Era Kelulau ("OEK") purported to exercise a legislative veto thereof. PPUC took the position that the OEK lacked the authority to veto the rate change, and the OEK responded by suing PPUC and PEWA over the matter.

After the initial stages of the case resulted in rulings that were favorable to PPUC's and PEWA's position, the OEK enacted, by way of a rider to a supplemental appropriation bill, an amendment to PPUC's rate-making statute that was given retroactive effect with the clear intent of voiding the new WWO tariff. Based upon this new law, set forth as Section 7 of RPPL No. 12-1, the court has ruled that the tariff is legally ineffective. In addition, the law includes conditions precedent to PPUC rate changes that, as a practical matter, will be very difficult, if not impossible, for PPUC to meet under present circumstances, and appear to be intended to strengthen the OEK's claim to legislative veto authority over PPUC rate changes.

Our fundamental point is that political intervention has thwarted PPUC in its diligent efforts to bring its rates into compliance with both the mandate of its governing statute and sound fiscal practice. PPUC nonetheless will continue to work with both the executive and legislative branches to achieve a resolution of this current untenable situation, most immediately in relation to WWO rates, but more broadly in terms of the entire PPUC rate-making process.