

*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, 2023 and 2022  
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, 2023 and 2022

**Contents**

Report of Independent Auditors.....	1
Management’s Discussion and Analysis .....	4
Audited Basic Financial Statements:	
Statements of Net Position.....	25
Statements of Revenues, Expenses and Changes in Net Position .....	27
Statements of Cash Flows.....	28
Statements of Fiduciary Net Position .....	30
Statements of Changes in Fiduciary Net Position.....	31
Notes to Financial Statements.....	32
Required Supplementary Information:	
Schedule 1 - Schedule of Proportionate Share of the Net Pension Liability .....	58
Schedule 2 - Schedule of Pension Contributions.....	59
Supplementary Information:	
Schedule 3 - Combining Statements of Net Position.....	60
Schedule 4 - Combining Statements of Revenues, Expenses and Change in Net Position .....	64
Schedule 5 - Combining Statements of Cash Flows.....	66
Schedule 6 - Schedules of Revenues and Expenses (Before Elimination) .....	70
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 <i>Government Auditing Standards</i> .....	72

## 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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary activities of Palau Public Utilities Corporation as of September 30, 2023 and 2022, and the respective 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 Opinions***

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 audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

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

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

### ***Auditor's Responsibility for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 24, the Schedule of Proportionate Share of the Net Pension Liability on page 58, and Schedule of Pension Contributions on page 59 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The supplementary information on pages 60 through 71 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Corporation's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statement as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 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.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

March 25, 2026

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

Management's Discussion and Analysis

Years ended September 30, 2023 and 2022

The Management's Discussion and Analysis (MD&A) present the Palau Public Utilities Corporation's financial performance during the fiscal year ended September 30, 2023. 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, 2023, which follow this section.

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

#### **COMPANY OVERVIEW**

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

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

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

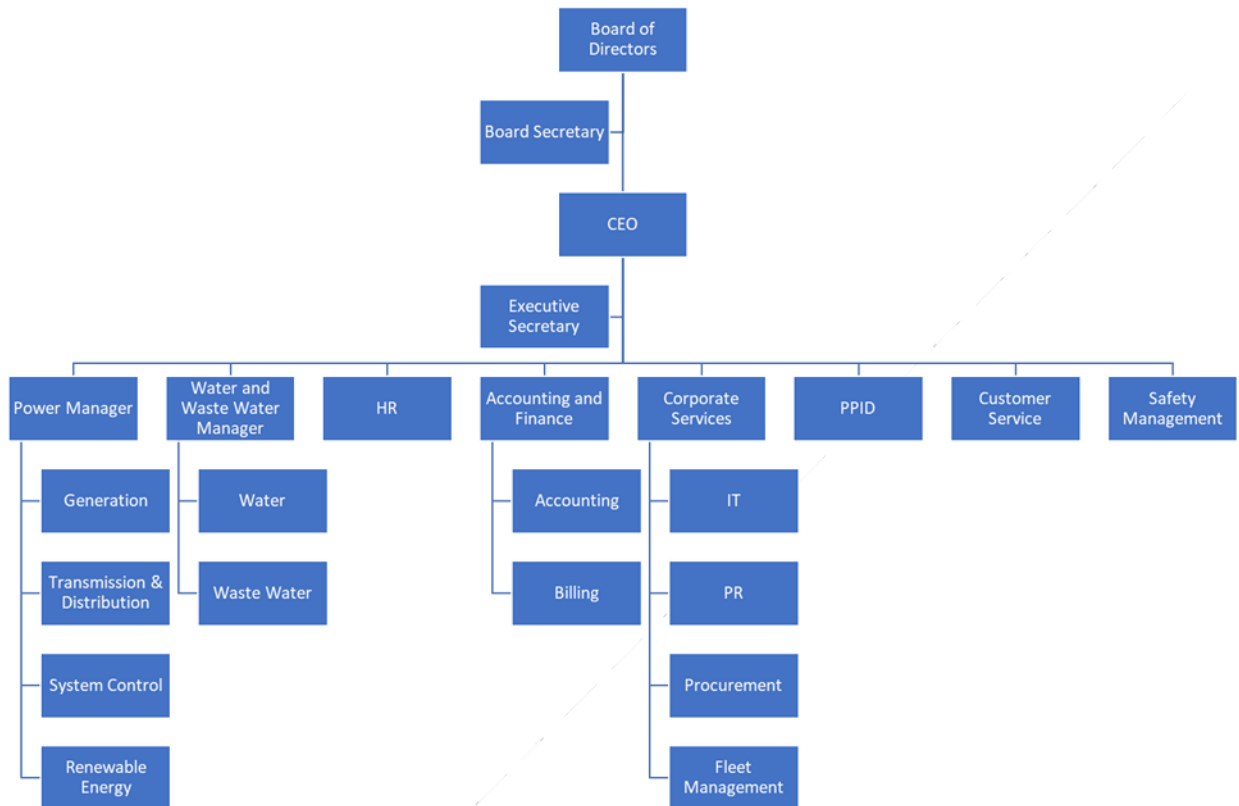
An organizational chart was created and adopted by the Board of Directors. The organizational chart has been modified and improved over time to reflect contemporary best practice in delivery of utility services' optimal operational efficiency; and adherence to the requirements of RPPL NO. 9-04 to share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

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

Management’s Discussion and Analysis, continued

**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.

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

Management's Discussion and Analysis, continued

**FINANCIAL STATEMENTS, continued**

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 (2023) 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.

In 2018, a grant from New Zealand was received by PPUC for an installation of a solar hybrid micro-grid on the State of Kayangel, which should save fuel costs. The construction started in FY 2019 and was fully operational by March 2020. By 2023, Kayangel's fuel consumption had reduced by almost 40% from 2017. These are certain measures that PPUC has undertaken and continues to develop and implement in order to reduce diesel fuel expenses and reached 45% renewables as mandated by Palau's NDC commitment. As a matter of fact, the procurement, engineering and construction for a Solar Photovoltaic (PV) Independent Power Producer (IPP) is on-going. In September 2023, test run was completed and expected to be commercially operated by April 2024.

In addition to energy alternatives, PPUC continues its efforts for austerity measures, fuel efficiency and reduction of energy losses with upgrades to its aging generation and electrical transmission and distribution infrastructure and equipment. PPUC plans and implements regular maintenance on its transmission and distribution lines, hardware and equipment including substations and its power generators. Recent system upgrades in the transmission and distribution are: 1.) Ngerkebesang systems upgrade, 2.) Meyuns systems upgrade and 3.) Elechui water pump primary

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

Management's Discussion and Analysis, continued

**ELECTRIC POWER OPERATIONS, continued**

line installation. JICA grid upgrade will cover the transmission line from Airai to East Coast. Constant monitoring, servicing and maintenance of power transformers, substation and substation equipment are also done in order to minimize power interruptions. Regular checking for theft of electrical services is done to reduce non-technical losses, including upgrade to prepaid meters and software. PPUC is required to update a numerical key in all prepaid meters and should be done before November 2024. This is called the Token Identification (TID) roll-over. The TID roll-over will allow the customer to continue using the prepaid meters beyond November 2024. The team scheduled the TID roll-over in FY2023.

In early 2020 the Republic of Palau National Congress authorized the Executive Branch to enter into loan negotiations with the Asian Development Bank (ADB) in the amount of ten million USD dollars for policy reform programs and revenue enhancement actions for the National Utility. The purpose of this loan is for revenue enhancement projects that include modification of the Niigata control system for the Malakal Power Plant base-load generators, conversion of customer accounts from a conventional metering system to a prepaid metering system, and fund critical WWO major improvements in order to prevent major water facility breakdowns. The contract for the Niigata modification has been signed in May 2022 and 69% of the work has been completed in FY 2023.

The effect of the COVID-19 pandemic in the global market was the reduction of fuel prices by almost 30%-40% in FY 2020. However, in later months of FY 2021 economy was recovering from pandemic, inflation was projected at 4.7% but due to war in Ukraine, fuel and other commodities increased rapidly and inflation was projected at 8.6% in 2022; and 6.7% in FY 2023 based on the IMF report. The impact is an increase of 75% in fuel prices in FY 2022 compared to FY 2020 during the pandemic. This resulted in a higher fuel expense and AFPAC. Due to the sudden increase of AFPAC in October – December 2021, ROP appropriated a \$2.550 million subsidy to customer's bill, as per RPPL 11-18 Section 33.a. In FY 2023 ROP appropriated \$1.6 million to subsidized residential customers consumption up to 500 kWh for \$.10 of the AFPAC rate, as per RPPL 10-24, section 20.b and further amended in RPPL 11-29, section 20.b.

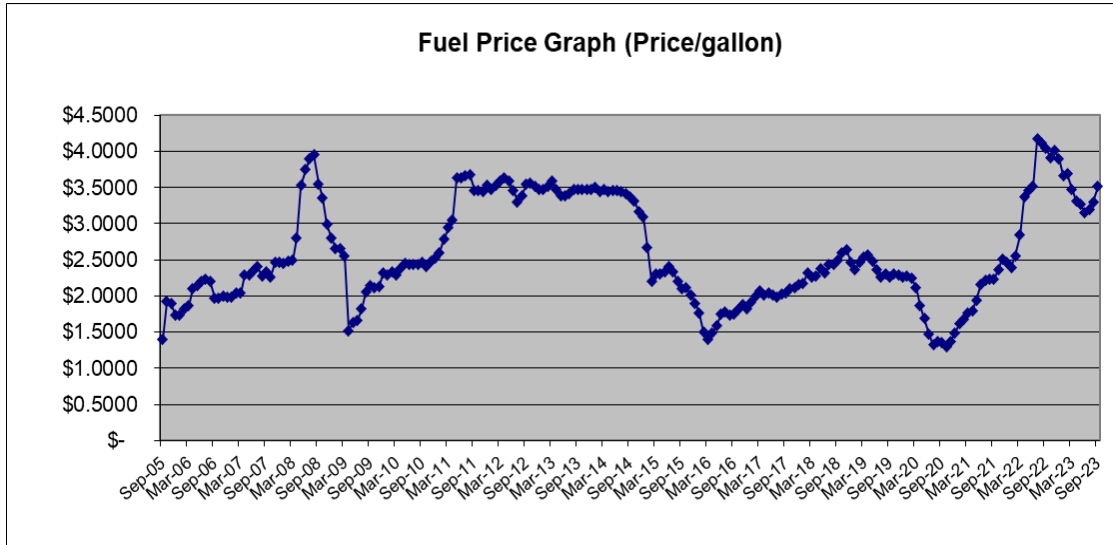
The Chart on the next page shows the changes in fuel prices from 2006 to 2023:

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(A Component Unit of the Republic of Palau)

Management’s Discussion and Analysis, continued

**ELECTRIC POWER OPERATIONS, continued**

**Chart 2.** Fuel Price



The table below shows the base rate and the effective quarterly AFPAC in FY 2023.

**Table 1:** EPO Base Rate Schedule

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

**Table 2:** Effective quarterly AFPAC

FY 2023 Per Quarter	Fuel Rate
1 <sup>st</sup> QTR (October-December 2022)	\$.300 /kWh
2 <sup>nd</sup> QTR (January-March 2023)	\$.336 /kWh
3 <sup>rd</sup> QTR (April-June 2023)	\$.307 /kWh
4 <sup>th</sup> QTR (July-September 2023)	\$.189 /kWh

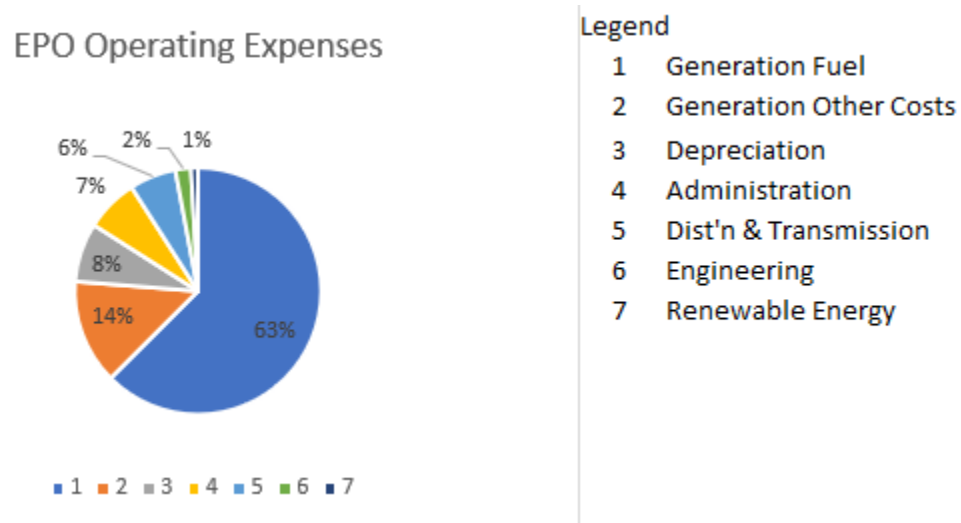
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(A Component Unit of the Republic of Palau)

Management’s Discussion and Analysis, continued

**ELECTRIC POWER OPERATIONS, continued**

The chart below shows the ratio of the total operating expenses of the EPO for FY 2023.

**Chart 3.** Total Operating Expense of EPO



It shows that almost 63% of the operating expenses is generation fuel.

The table and charts below show the operational performance of PPUC from FY 2018 to FY 2023.

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

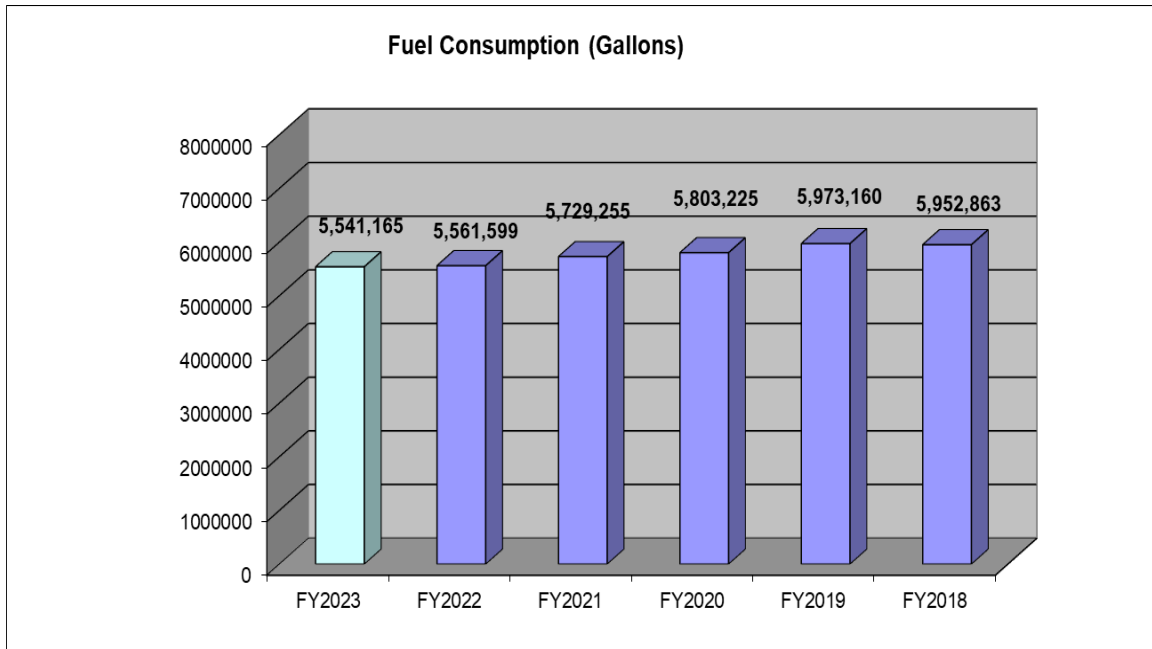
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
<b>Generation (kWh)</b>	89,429,875	88,615,682	86,411,882	82,770,073	80,103,005	82,026,201
<b>Billed (kWh)</b>	75,429,455	74,824,795	74,965,127	71,389,139	69,335,745	68,743,275
<b>Fuel Consumption (gal)</b>	5,952,863	5,973,160	5,803,225	5,921,381	5,561,599	5,541,165
% Inc/(Dec) in Generation	3.85%	-0.91%	-2.49%	-4.21%	-3.22%	2.40%
% Inc/(Dec) in Billing	1.89%	-0.80%	0.19%	-4.77%	-2.88%	-0.85%
% Inc/(Dec) in Fuel Consumption	3.22%	0.34%	-2.84%	2.04%	-6.08%	-0.37%

Palau Public Utilities Corporation  
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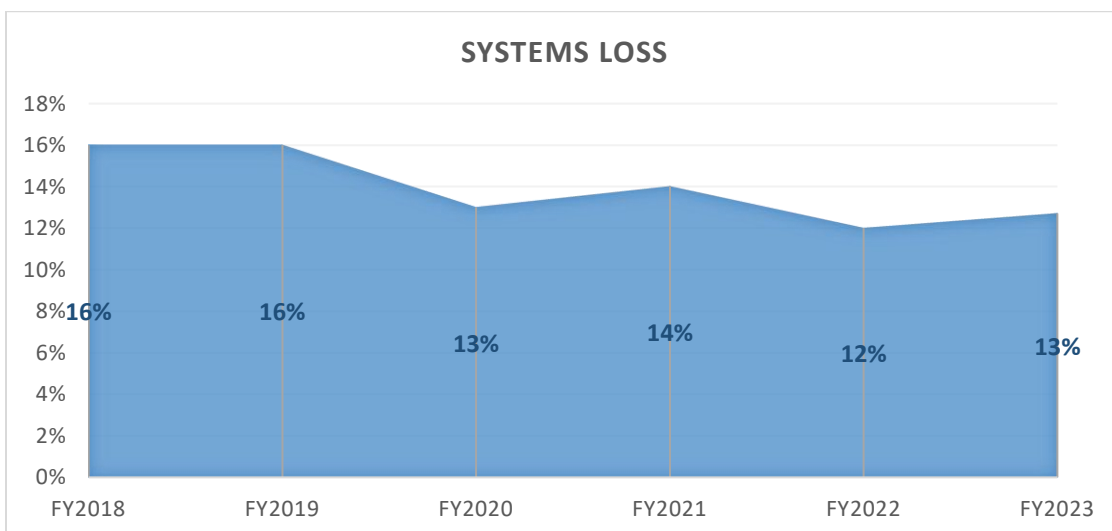
Management’s Discussion and Analysis, continued

**ELECTRIC POWER OPERATIONS, continued**

**Chart 4.** Fuel Consumption



**Chart 5.** System losses of PPUC from FY 2018 to FY 2023



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

Management's Discussion and Analysis, continued

**ELECTRIC POWER OPERATIONS, continued**

**EPO Financial Highlights**

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

ELECTRIC POWER OPERATIONS	SEPT. 30, <u>2023</u>	SEPT. 30, <u>2022</u>	INC/(DEC) <u>2023</u>	SEPT. 30, <u>2021</u>
Revenues, Expenses, and Changes in Net Position				
Operating Revenues				
Electric	\$29,884	\$26,913	\$2,971	\$15,414
Others	2,297	1,585	712	1,012
Provision for Bad Debts	( 212)	( 176)	( 36)	( 83)
Total Revenue	31,969	28,322	3,647	16,343
Operating Expenses				
Generation Fuel	19,426	17,808	1,618	10,736
Generation Other Costs	4,262	3,640	622	1,895
Depreciation	2,402	2,675	( 273)	2,903
Administration	2,157	2,087	70	1,927
Distribution & Transmission	1,900	2,030	( 130)	2,079
Engineering	632	702	( 70)	906
Renewable Energy	<u>283</u>	<u>290</u>	<u>( 7)</u>	<u>223</u>
Total Operating Expenses	31,062	29,232	1,830	20,669
Non-Operating (Expenses) Revenue	<u>( 176)</u>	<u>2,418</u>	<u>(2,594)</u>	<u>( 386)</u>
Change in Net Position	731	1,508	( 777)	( 4,712)
Beginning Net Position	<u>30,617</u>	<u>29,109</u>	<u>1,508</u>	<u>33,821</u>
Ending Net Position	<u>\$31,348</u>	<u>\$30,617</u>	<u>\$ 731</u>	<u>\$29,109</u>

Operating revenue increased by 13%. Factor that contributed to this increase is the higher AFPAC compared to FY 2022. Although the fuel price decreased in the middle of FY 2023, AFPAC is higher because the method is using a six-month prior fuel price adjustment which is in FY 2022 where fuel prices are higher. AFPAC decreased in the last quarter of FY 2023. Total expenses had increased by 6% due to increase in fuel cost and Mitsubishi major overhaul in Aimeliik Power Plant which amounted to \$1.8 million. Fuel expenses have increased despite the decrease in price because we are using first-in-first-out method from the inventory.

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

Management's Discussion and Analysis, continued

**ELECTRIC POWER OPERATIONS, continued**

**Table 5:** EPO Statements of Net Position.

ELECTRIC POWER OPERATIONS	SEPT. 30, <u>2023</u>	SEPT. 30, <u>2022</u>	INC/(DEC) <u>2023</u>	SEPT. 30, <u>2021</u>
Statement of Net Position				
Current Assets	\$37,573	\$38,696	\$(1,123)	\$28,010
Other Assets	720	720	---	146
Net Utility Plant	<u>24,180</u>	<u>24,754</u>	( 574)	<u>27,065</u>
Total Assets	<u>62,473</u>	<u>64,170</u>	(1,697)	<u>55,221</u>
Deferred Outflows from Pension	<u>4,687</u>	<u>6,132</u>	(1,445)	<u>5,706</u>
Total	<u>\$67,160</u>	<u>\$70,302</u>	\$(3,142)	<u>\$60,927</u>
Current Liabilities	\$10,723	\$13,932	\$(3,209)	\$8,367
Other Liabilities	5,600	6,000	( 400)	5,500
Net Pension Liability	<u>13,460</u>	<u>16,087</u>	(2,627)	<u>16,252</u>
Total Liabilities	<u>29,783</u>	<u>36,019</u>	(6,236)	<u>30,119</u>
Deferred Inflows from Pension	<u>6,029</u>	<u>3,665</u>	2,364	<u>1,699</u>
Total	<u>\$35,812</u>	<u>\$39,684</u>	\$(3,872)	<u>\$31,818</u>
Invested in Capital Assets	23,508	23,890	( 382)	26,009
Unrestricted	<u>7,840</u>	<u>6,728</u>	1,112	<u>3,100</u>
Total Net Position	<u>\$31,348</u>	<u>\$30,618</u>	\$ 730	<u>\$29,109</u>

Cash decreased by 42% due to the ADB-PBL Tranche 2 proceeds already transferred to WWO in October 2022 amounting to \$4.1 million. Accounts Receivable increased by 22%. The \$15.2 million in the accounts receivable is WWO's electric billings that is owed to EPO. AFPAC had increased, thus the increase in WWO's unpaid bill too. Since September 2017, WWO has not been able to pay its electric bill, bloating up the accounts receivable of the electric operations.

**WATER AND WASTEWATER OPERATIONS**

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

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

Management's Discussion and Analysis, continued

**WATER AND WASTEWATER OPERATIONS, continued**

The prime objective of PPUC-Water and Wastewater Operations (WWO) as mandated by the law is that full cost recovery is achieved. Thus, a table of tariff 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 on January 31, 2021. However, outlying states, Babeldaob and Youлдаob 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 million for PPUC to be divided into two (2) tranches. Part of tranche 1 amounting to \$1.3 million was used to improve KAWTP. These include: 1.) Improvement of chemical feeder, building equipment, and flocculator; 2.) Repair and repaint of steel sand filter tank and improvement of seven (7) sludges drying bed. In FY 2023, the tranche 1 are almost 65%-90% completed and will be 100% by FY 2024.

Tranche 2 amounting to \$4.1 million will improve WWO's treatment, distribution facilities, and improvement of some parts of outlying states. Amongst the revenue enhancement plan for the Subprogram 2 are: 1.) Replacement of 10,000 ft of 100mm local pipes in Ngerkesouaol and Ngerbeched. This project is expected to start in FY 2024 and expected to be completed in FY 2025; 2.) Replacement of 12 water pumps in Ngerikiil and KAWTP. This project started in April 2023 and expected to be completed in FY 2025. 3.) Improvement of pump stations and reservoirs at Ollei, Mengellang, and Ibobang. These projects started in FY 2023 and is expected to be completed by 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 on 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 on the residential customers, ROP appropriated \$400,000 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.

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

Management's Discussion and Analysis, continued

**WATER AND WASTEWATER OPERATIONS, continued**

**Table 6.** Below shows the WWO tariff effective January 31, 2021 and May 1, 2023

**KOROR-AIRAI Water & Sewer Rates Effective January 31, 2021**

**Residential Rates**

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

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

Management's Discussion and Analysis, continued

**WATER AND WASTEWATER OPERATIONS, continued**

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

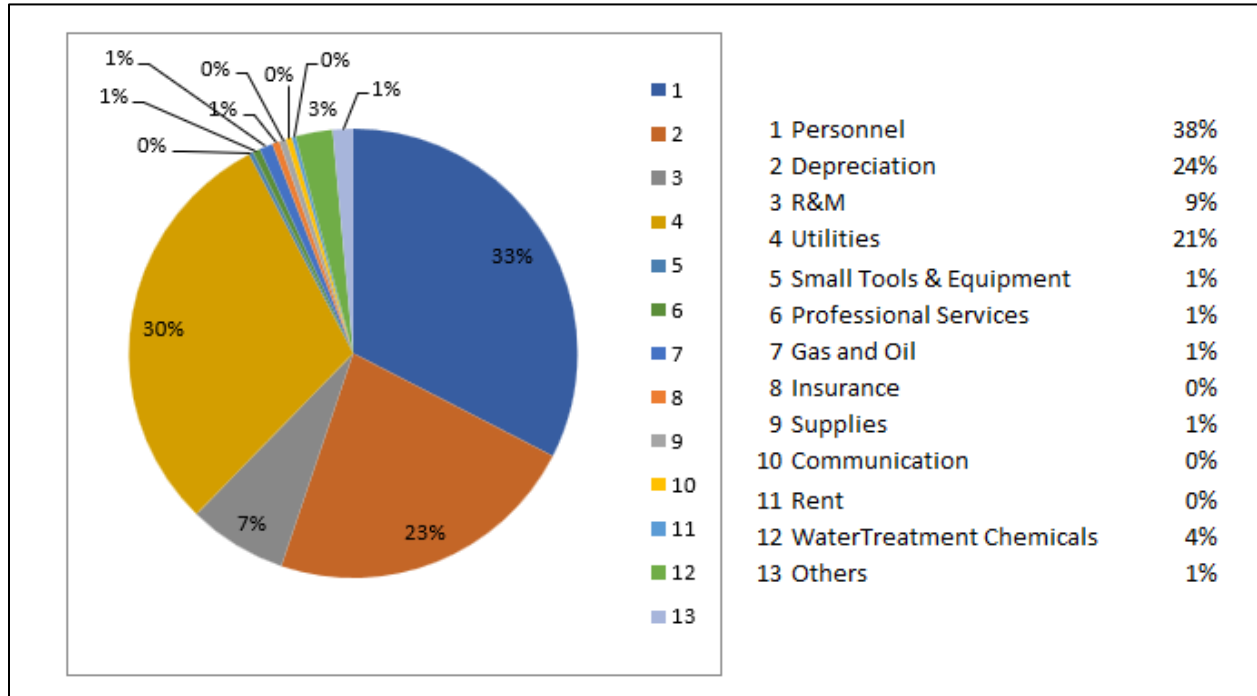
Palau Public Utilities Corporation  
(A Component Unit of the Republic of Palau)

Management’s Discussion and Analysis, continued

**WATER AND WASTEWATER OPERATIONS, continued**

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

**Chart 6:** Operating Expenses of WWO



The chart shows that the largest percentage of expenses goes to personnel, depreciation and utilities. WWO’s power consumption is approximately \$3.5 million this FY 2023.

**Table 7:** Gallons Billed

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Gal Billed	750,838,283	681,143,602	678,084,623	603,948,886	600,674,130	566,065,494

Currently, there is an on-going water project to reduce Non-Revenue Water (NRW) that focuses on strengthening capacity. This project is a joint effort of the Japan International Cooperation Agency (JICA); Yachiyo Engineering Co., Ltd; and Japan Techno Co., Ltd. The project commenced in February 2022 and completion report was expected to be released in February 2024. This project 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

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

Management's Discussion and Analysis, continued

**WATER AND WASTEWATER OPERATIONS, continued**

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. Total grant project amounted to \$171k. Other grants that PPUC received in FY 2023 are: 1.) From the Embassy of Japan amounting to \$183k for the procurement of vacuum truck for wastewater operations. This is funded by the Japan Grassroots Grant program. 2.) From the Government of Italy through Palau International Coral Reef Center (PICRC) amounting to \$127k for the Airai Well Development and Groundwater Prospecting 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 million. The two-year construction was expected to be finished and in full operation by FY 2023. The \$28 million was originally projected to cover both Koror and Airai. However, due to the change in prices of materials to be used in construction and budget constraints, it only covered the Koror area.

**WWO Financial Highlights**

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

WATER AND WASTEWATER OPERATIONS	SEPT. 30, <u>2023</u>	SEPT. 30, <u>2022</u>	INC/(DEC) <u>2023</u>	SEPT. 30, <u>2021</u>
Revenues, Expenses, and Changes in Net Position				
Operating Revenues				
Water and Wastewater	\$ 5,176	\$ 3,807	\$ 1,369	\$ 4,134
Other	320	277	43	229
(Bad debts) Recoveries	( 180)	26	( 206)	( 137)
Total Revenue	5,316	4,110	1,206	4,226
Operating Expenses				
Water and Wastewater	7,172	7,037	135	5,813
Depreciation	2,470	2,453	17	2,108
Administration	<u>1,494</u>	<u>1,345</u>	<u>149</u>	<u>1,309</u>
Total Operating Expenses	11,136	10,835	301	9,230
Non-Operating Expenses	( 734)	( 527)	( 207)	( 559)
Change in Net Position	( 6,554)	( 7,252)	698	( 5,563)
Beginning Net Position	( 1,566)	<u>5,685</u>	(7,251)	<u>11,248</u>
Ending Net Position	\$( <u>8,120</u> )	\$( <u>1,567</u> )	\$(6,553)	\$ <u>5,685</u>

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

Management's Discussion and Analysis, continued

**WWO Financial Highlights, continued**

Operating revenue had increased by 29% despite the decrease in the gallons billed due to the new WWO rate that was implemented in May 2023. PPUC was hopeful that this will help with the cost recovery even though outlying states are still at 2011 rates and with the inflation being at 6.7% as per IMF Report. Interest expense increase by 265% due to KASP interest rates that had increased by almost 80% in FY 2023 compared to FY 2022. ADB-KASP loan uses a Secured Overnight Financing Rate (SOFR) index for its interest.

**Table 9:** WWO Statements of Net Position

WATER AND WASTEWATER OPERATIONS	SEPT. 30, <u>2023</u>	SEPT. 30, <u>2022</u>	INC/(DEC) <u>2023</u>	SEPT. 30, <u>2021</u>
Statement of Net Position				
Current assets	\$ 5,669	\$ 7,311	\$(1,642)	\$ 4,604
Other assets	---	---	---	124
Net Utility Plant	<u>40,216</u>	<u>41,470</u>	<u>(1,254)</u>	<u>43,050</u>
Total assets	<u>45,885</u>	<u>48,781</u>	<u>(2,896)</u>	<u>47,778</u>
Deferred Outflows from Pension	<u>2,408</u>	<u>3,145</u>	<u>( 737)</u>	<u>3,904</u>
	<u>\$ 48,293</u>	<u>\$ 51,926</u>	<u>\$ 3,633</u>	<u>\$51,682</u>
Current Liabilities	\$ 18,111	\$ 13,756	\$ 4,355	\$10,909
Other Liabilities	25,776	27,111	(1,335)	22,480
Net Pension Liability	<u>8,736</u>	<u>10,276</u>	<u>(1,540)</u>	<u>11,445</u>
Total Liabilities	<u>52,623</u>	<u>51,143</u>	<u>1,480</u>	<u>44,834</u>
Deferred Inflows from Pension	<u>3,791</u>	<u>2,350</u>	<u>1,441</u>	<u>1,163</u>
	<u>\$ 56,414</u>	<u>\$ 53,493</u>	<u>\$ 2,921</u>	<u>\$45,997</u>
Invested in Capital Assets	19,133	17,152	1,981	19,232
Unrestricted	<u>(27,254)</u>	<u>(18,719)</u>	<u>(8,535)</u>	<u>(13,547)</u>
Total Net Position	<u>\$ ( 8,121)</u>	<u>\$ ( 1,567)</u>	<u>\$ (6,554)</u>	<u>\$ 5,685</u>

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

Management's Discussion and Analysis, continued

**WWO Financial Highlights, continued**

Cash increased by 88% due to the ADB-PBL loan proceeds that was transferred to WWO account in October 2022 and also because of the new WWO Rate. However, gallons billed continue to decrease. One factor that contributes to the reduction in gallons billed is the outmigration of both Palauan residents and some workers during pandemic. Trade Receivable increased by 46% due to the increase in WWO Rates. Current Liabilities increased by 32% due to additional current portion of KASP Loan and unpaid electric bill of WWO amounting to \$15.2 million. WWO has not been able to pay its electric bill due to cash flow constraints of not generating enough cash revenue from its tariff. Non-Current/Other liabilities decreased by 8% due to the repayment of KASP loan.

**CAPITAL ASSETS AND LONG-TERM DEBTS**

**Capital Assets**

The following table summarizes PPUC's capital assets by category and accumulated depreciation, and the change therein for the years ended September 30, 2021 through 2023. The total investment in capital assets amounted to \$64.4 million (net of accumulated depreciation). The overall corporate capital assets decreased by \$1.8 million.

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

Management's Discussion and Analysis, continued

**Capital Assets, continued**

**Table 10:** PPUC's Capital Assets

	Sept 30, 2023	Sept 30, 2022	Sept 30, 2021	Increase (Decrease) 2023	Increase (Decrease) 2022
<b>CAPITAL ASSETS:</b>					
Electric Plants:					
Electric Plants, Koror/Aimeliik	\$ 34,385	\$ 33,202	\$ 33,202	\$ 1,183	\$ -
Electric Plants, Outlying States	2,349	2,302	2,302	47	-
Total Electric Plants	36,734	35,504	35,504	1,230	-
Accumulated Depreciation	(21,428)	(20,094)	(18,518)	(1,334)	(1,576)
Net Electric Plant	15,306	15,410	16,986	(104)	(1,576)
Transmission & Distribution System					
T&D System, Koror/Aimeliik	20,359	19,259	19,191	1,100	68
T&D System, Outlying States	1,154	2,149	2,149	(995)	-
Total T&D System	21,513	21,408	21,340	105	68
Accumulated Depreciation	(15,954)	(15,332)	(14,716)	(622)	(616)
Net T&D System	5,559	6,076	6,624	(517)	(548)
Water & Sewer Systems					
Water Infrastructure	41,222	40,695	40,269	527	426
Sewer Infrastructure	31,352	31,239	20,706	113	10,533
Total Water & Sewer Systems	72,574	71,934	60,975	640	10,959
Accumulated Depreciation	(47,454)	(45,173)	(42,899)	(2,281)	(2,274)
Net Water & Sewer Systems	25,120	26,761	18,076	(1,641)	8,685
Water & Sewer Transmission & Distribution System					
WWO T&D System, Koror/Babeldaot	1,381	1,381	1,381	-	-
Total WWO T&D System	1,381	1,381	1,381	-	-
Accumulated Depreciation	(517)	(443)	(369)	(74)	(74)
Net WWO T&D System	864	938	1,012	(74)	(74)
Administrative Equipment					
Buildings	3,452	3,239	3,169	213	70
Heavy Equipment & Vehicles	3,679	3,463	3,406	216	57
Tools & Maint Equipment	568	556	572	12	(16)
Computers & Office Equipment	1,421	1,442	1,457	(21)	(15)
Total Admin Equipment	9,120	8,700	8,604	420	96
Accumulated Depreciation	(6,689)	(6,207)	(5,761)	(482)	(446)
Net Admin Equipment	2,431	2,493	2,843	(62)	(350)
Total Capital Projects in Progress	15,116	14,546	24,574	570	(10,028)
<b>TOTAL</b>	<b>\$ 64,396</b>	<b>\$ 66,224</b>	<b>\$ 70,115</b>	<b>\$ (1,828)</b>	<b>\$ (3,891)</b>

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

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

Management's Discussion and Analysis, 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 \$5 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)	
		Original	Sept 30, 2023
EPO International Loan (MEGA)	\$	7,000	\$ 1,400
EPO Local Loan (NDBP)	\$	3,000	\$ -
WWO International Loan (ADB 3060 & 3061)	\$	28,672	\$ 21,082
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
<b>TOTAL</b>	<b>\$</b>	<b>45,472</b>	<b>\$ 32,482</b>

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

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

**Management’s Discussion and Analysis, continued**

**Long-Term Debts, continued**

Contracts amounting to \$26.4 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 Quarry	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
		<b>\$ 26,351</b>

**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.

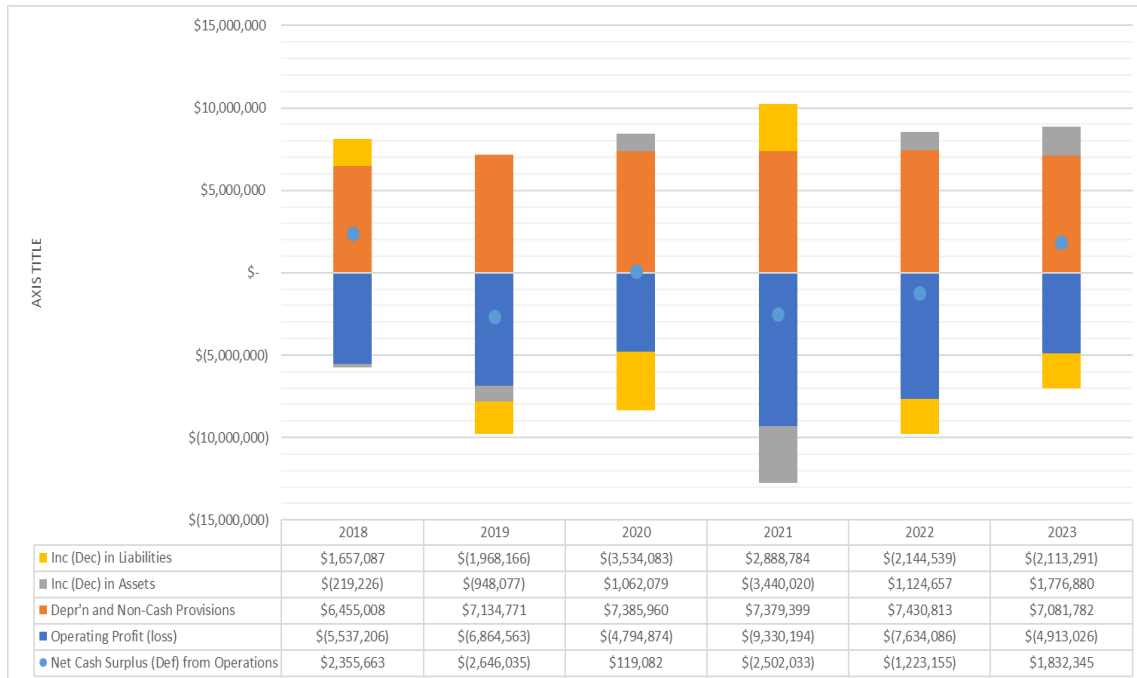
**Palau Public Utilities Corporation**  
(A Component Unit of the Republic of Palau)

**Management’s Discussion and Analysis, continued**

**CASH POSITION, continued**

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



**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.

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

Management's Discussion and Analysis, continued

**FUTURE OUTLOOK, continued**

In June 2021, PPUC's base rate in EPO had increased to reach full cost recovery. This tariff study allowed PPUC to change the base rate annually depending on the projected operating and capital expenditures of the Corporation. This major improvement to the electric power operations, will allow them to operate effectively and efficiently and deliver the best quality of services to the people. A tariff study for WWO as part of the ADB-PBL was done and implemented in FY 2023. This will enable WWO to recover the cost of operations, capital expenditures and debt services. However, due to the outlying states, Babeldaob and Youлдаob remain at 2011 rates until water quality is improved, it will not reach full-cost recovery.

The Corporation exists as a commercial entity. It has an obligation to recover its costs through the imposition of adequate tariff rates. In respect to water and wastewater charges, the Corporation had been increasing tariffs in a staged manner in order to fully meet costs over a five-year period. In respect to electricity services, the Corporation is required to adjust tariffs quarterly to meet changing fuel costs, which have been evidenced in chart 2 (changes in fuel prices) to have been increasing since 2016. Restricting the capacity of the Corporation to adjust tariffs for the purposes of applying "adequate" charges could affect its operating performance and financial stability. The tariff study being done for both EPO and WWO in relation to the ADB-PBL is expected to resolve this issue of cost-recovery and sustainability of the Corporation.

**CONTACTING PPUC'S FINANCIAL MANAGEMENT**

This financial report is designed to provide PPUC's rate payers, creditors, funding sources, and other interested parties with a general overview of PPUC's finances operations and to demonstrate PPUC's accountability for the money it receives. Management Discussion and Analysis for the year ended September 30, 2022 is set forth in PPUC's report on the audit of financial statements which is dated April 8, 2025.

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](mailto: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,	
	<u>2023</u>	<u>2022</u>
<b>Assets and Deferred Outflows of Resources</b>		
Utility plant:		
Depreciable utility plant, net	\$49,280,373	\$51,677,691
Non-depreciable utility plant	<u>15,115,529</u>	<u>14,546,255</u>
Net utility plant	64,395,902	66,223,946
Current assets:		
Cash and cash equivalents	9,805,090	13,670,687
Receivables:		
Trade	5,344,397	4,978,729
Affiliate	190,599	222,970
Contracts	219,210	275,361
Other	<u>19,070</u>	<u>224,333</u>
	5,773,276	5,701,393
Less allowance for doubtful accounts	( <u>2,871,659</u> )	( <u>2,480,524</u> )
Net receivables	<u>2,901,617</u>	<u>3,220,869</u>
Prepaid expenses	2,143,749	1,641,755
Inventory, net	<u>13,228,707</u>	<u>11,942,856</u>
Total current assets	<u>28,079,163</u>	<u>30,476,167</u>
Total assets	<u>92,475,065</u>	<u>96,700,113</u>
Deferred outflows of resources from pension	<u>7,095,021</u>	<u>9,276,421</u>
	<u>\$99,570,086</u>	<u>\$105,976,534</u>

*See accompanying notes.*

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

Statements of Net Position, continued

	September 30, <u>2023</u>	2022
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
Net position:		
Net investment in utility plant	\$42,641,766	\$ 41,042,188
Unrestricted	<u>(19,414,022)</u>	<u>( 11,991,142)</u>
Total net position	23,227,744	29,051,046
Current liabilities:		
Current portion of long-term debt	1,826,038	1,807,251
Accounts payable	9,342,753	7,538,124
Accrued expenses	751,003	928,766
Due to fiduciary fund	409,831	389,338
Customer deposits	<u>1,341,889</u>	<u>1,493,572</u>
Total current liabilities	13,671,514	12,157,051
Long-term debt, net of current portion	30,656,098	32,390,618
Net pension liability	<u>22,195,116</u>	<u>26,362,690</u>
Total liabilities	66,522,728	70,910,359
Deferred inflows of resources from pension	<u>9,819,614</u>	<u>6,015,129</u>
	<u>\$99,570,086</u>	<u>\$105,976,534</u>

*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,	
	<u>2023</u>	<u>2022</u>
Operating revenues:		
Power	\$26,352,525	\$23,662,929
Water	3,221,539	2,690,564
Wastewater	1,838,287	1,018,056
Other	<u>2,617,234</u>	<u>1,862,813</u>
Total operating revenues	34,029,585	29,234,362
Provision for uncollectible receivables	( <u>391,135</u> )	( <u>149,750</u> )
Net operating revenues	<u>33,638,450</u>	<u>29,084,612</u>
Operating expenses:		
Generation - fuel	19,425,829	17,807,552
Depreciation	4,872,336	5,127,696
Generation - other cost	4,256,266	3,628,972
Administration	3,568,250	3,365,805
Water operations	2,828,402	2,903,638
Distribution and transmission	1,862,412	1,997,921
Wastewater operations	842,551	911,398
Engineering services	622,579	694,001
Renewable energy	<u>272,851</u>	<u>281,715</u>
Total operating expenses	<u>38,551,476</u>	<u>36,718,698</u>
Operating loss	( <u>4,913,026</u> )	( <u>7,634,086</u> )
Nonoperating revenues (expenses):		
Grants	499,624	32,250
Operating subsidies from the Republic of Palau	19,983	2,576,220
Interest income	983	3,418
Interest expense	( 1,347,751 )	( 481,943 )
(Loss) gain on disposal of assets	( 14,144 )	573
Others	<u>( 68,971 )</u>	<u>( 239,958 )</u>
Total nonoperating (expense) revenues, net	( <u>910,276</u> )	<u>1,890,560</u>
Change in net position	( 5,823,302 )	( 5,743,526 )
Net position at beginning of year	<u>29,051,046</u>	<u>34,794,572</u>
Net position at end of year	<u>\$23,227,744</u>	<u>\$29,051,046</u>

*See accompanying notes.*

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

Statements of Cash Flows

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$33,722,302	\$25,000,634
Cash payments to suppliers for goods and services	(26,172,310)	(20,464,596)
Cash payments to employees for services	( 5,697,154)	( 5,759,193)
Net cash provided by (used in) operating activities	<u>1,852,838</u>	<u>( 1,223,155)</u>
Cash flows from investing activities: interest income	<u>982</u>	<u>573</u>
<b>Cash flows from non-capital financing activities:</b>		
Operating subsidies received from the Republic of Palau	19,983	2,576,220
Cash received from grantor agencies	327,990	32,250
Other non-capital activities	( 68,970)	( 239,959)
Net cash provided by non-capital financing activities	<u>279,003</u>	<u>2,368,511</u>
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from issuance of long-term debt	---	6,302,706
Principal payments on long-term debt	( 1,715,733)	( 1,102,594)
Interest paid on long-term debt	( 1,347,751)	( 514,318)
Repayments of reimbursable grant from the Republic of Palau	---	( 900,000)
Acquisition of utility plant	( 2,934,936)	( 1,233,104)
Net cash (used in) provided by capital and related financing activities	<u>( 5,998,420)</u>	<u>2,552,690</u>
Net change in cash and cash equivalents	( 3,865,597)	3,698,619
Cash and cash equivalents at beginning of year	<u>13,670,687</u>	<u>9,972,068</u>
Cash and cash equivalents at end of year	<u>\$ 9,805,090</u>	<u>\$13,670,687</u>

Supplemental information on noncash capital 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.

*See accompanying notes.*

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

Statements of Cash Flows, continued

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$(4,913,026)	\$(7,634,086)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	4,872,336	5,127,696
Provision for uncollectible receivables	391,135	149,750
Pension expense	1,818,311	2,153,367
(Increase) decrease in assets:		
Receivables:		
Trade	( 365,668)	( 770,597)
Affiliate	3,620,845	4,338,690
Contracts	56,151	( 583,608)
Other	205,263	( 194,186)
Prepaid expenses	( 501,994)	( 653,144)
Inventory	(1,237,717)	(1,012,498)
Increase (decrease) in liabilities:		
Accounts payable	(1,783,845)	(2,304,291)
Accrued expenses	( 177,763)	( 135,835)
Due to fiduciary fund	20,493	( 32,422)
Customer deposits	( 151,683)	<u>328,009</u>
Net cash provided by (used in) operating activities	<u>\$ 1,852,838</u>	<u>\$(1,223,155)</u>

*See accompanying notes.*

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

Statements of Fiduciary Net Position

<b>Asset</b>	September 30,	
	<u>2023</u>	<u>2022</u>
Due from primary government	<u>\$409,831</u>	<u>\$389,338</u>
	<u>\$409,831</u>	<u>\$389,338</u>
<b>Fiduciary Net Position</b>		
Net position – restricted for subsidies	<u>\$409,831</u>	<u>\$389,338</u>
	<u>\$409,831</u>	<u>\$389,338</u>

*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,	
	<u>2023</u>	<u>2022</u>
Additions:		
Revenues	\$2,450,000	\$900,000
Deductions:		
Expenses	<u>2,429,507</u>	<u>932,422</u>
Change in net position	20,493	( 32,422)
Fiduciary net position at beginning of year	<u>389,338</u>	<u>421,760</u>
Fiduciary net position at end of year	<u>\$ 409,831</u>	<u>\$389,338</u>

*See accompanying notes.*

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

**Notes to Financial Statements**

**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 PUC was to establish and operate electrical utility services within the ROP.

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

**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.

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

Notes to Financial Statements, continued

**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) for the year ended September 30, 2022. The law appropriated \$1,400,000 to provide 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 11-24 was enacted for the same purpose as RPPL 11-18, with appropriations totaling \$1,600,000 for the year ended September 30, 2023.

During the year ended September 30, 2022, PPUC received \$900,000 for the RPPL 11-18 from the ROP and did not receive any funding for the Lifeline Subsidy. The full amount received was disbursed during year. An additional \$32,422 was utilized from funding provided for the year ended September 30, 2021. As of September 30, 2022, the excess receipts totaling \$389,338 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, 2023 and 2022, PPUC does not have restricted net position.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Basis of Accounting**

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

**Cash and Cash Equivalents**

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

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

As of September 30, 2023 and 2022, cash and cash equivalents were \$9,805,090 and \$13,670,687, respectively, and the corresponding bank balances were \$11,322,998 and \$14,600,529, respectively, that are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2023 and 2022, bank deposits of \$750,000 were subject to the FDIC insurance coverage limits. PPUC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage and deposits in financial institutions not subject to FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

**Receivables and Allowance for Uncollectable Accounts**

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

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

Notes to Financial Statements, continued

**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.

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

Notes to Financial Statements, continued

**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.

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

Notes to Financial Statements, continued

**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).

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 year ended September 30, 2023, PPUC recorded output tax of \$2,720,443 assessed for its customers and input tax of \$1,871,255 assessed by its vendors, which resulted in a net PGST payment due of \$849,188. At September 30, 2023, unpaid balance of \$2,633 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 year ended September 30, 2023, no provision for BPT is recognized as the taxable income is zero.

**Recently Adopted Accounting Pronouncements**

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

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

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

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements, continued**

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied more easily. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements.

The adoption of these GASB statements during the year ended September 30, 2023 did not have a material effect on the accompanying financial statements.

**Upcoming Accounting Pronouncements**

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

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.

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

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

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.

PPUC is currently evaluating the effects 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, 2023 and 2022, PPUC received grants of \$18,500 and \$32,250, respectively. For the year ended September 30, 2023, PPUC also received a combination of the cash and non-cash grants totaling \$481,124 from the Japan International Cooperation Agency (JICA) and Italian Ministry of Government, Land and Sea.

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

**4. Receivable from a Local Bank**

At September 30, 2023 and 2022, PPUC has uninsured deposits of \$1,896,036, with a bank that went into receivership on November 7, 2006. These deposits were fully provided with an allowance at September 30, 2023 and 2022.

**5. Inventory**

Inventory at September 30, 2023 and 2022, consists of the following:

	<u>2023</u>	<u>2022</u>
Generation parts and supplies	\$ 6,723,750	\$ 6,897,901
Fuel	5,815,141	4,407,413
Water distribution parts and supplies	973,629	799,629
Chemicals	223,403	312,046
Lubricants	<u>36,918</u>	<u>60,700</u>
	13,772,841	12,477,689
Allowance for slow moving and obsolete inventory	<u>( 544,134)</u>	<u>( 534,833)</u>
	<u>\$13,228,707</u>	<u>\$11,942,856</u>

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

Notes to Financial Statements, continued

**6. Utility Plant**

Utility plant consists of the following detailed balances at September 30, 2023 and 2022:

		<u>2023</u>			
	<u>Estimated</u>	Balance at	Additions	Deletions	Balance at
	<u>Useful Lives</u>	October	and	and	September
		<u>1, 2022</u>	<u>Transfers</u>	<u>Transfers</u>	<u>30, 2023</u>
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	<u>718,044</u>	<u>32,726</u>	<u>( 52,098)</u>	<u>698,672</u>
		138,939,410	2,489,162	( 94,498)	141,334,074
Less accumulated depreciation		<u>( 87,261,719)</u>	<u>( 4,872,336)</u>	<u>80,354</u>	<u>( 92,053,701)</u>
		51,677,691	( 2,383,174)	( 14,144)	49,280,373
Non-depreciable utility plant:					
Construction in progress		<u>14,546,255</u>	<u>2,491,358</u>	<u>( 1,922,084)</u>	<u>15,115,529</u>
		<u>\$ 66,223,946</u>	<u>\$ 108,184</u>	<u>\$( 1,936,228)</u>	<u>\$ 64,395,902</u>
		<u>2022</u>			
	<u>Estimated</u>	Balance at	Additions	Deletions	Balance at
	<u>Useful Lives</u>	October	and	and	September
		<u>1, 2021</u>	<u>Transfers</u>	<u>Transfers</u>	<u>30, 2022</u>
Depreciable utility plant:					
Electric plant	3 - 25 years	\$ 35,962,116	\$ ---	\$ ---	\$ 35,962,116
Water system	20 years	41,727,451	425,832	---	42,153,283
Sewer system	20 years	20,705,905	10,533,349	---	31,239,254
General support equipment	2 - 30 years	28,686,739	288,690	( 108,716)	28,866,713
Administrative equipment	2 - 10 years	<u>736,474</u>	<u>16,786</u>	<u>( 35,216)</u>	<u>718,044</u>
		127,818,685	11,264,657	( 143,932)	138,939,410
Less accumulated depreciation		<u>( 82,277,955)</u>	<u>( 5,127,696)</u>	<u>143,932</u>	<u>( 87,261,719)</u>
		45,540,730	6,136,961	---	51,677,691
Non-depreciable utility plant:					
Construction in progress		<u>24,574,390</u>	<u>1,807,285</u>	<u>( 11,835,420)</u>	<u>14,546,255</u>
		<u>\$ 70,115,120</u>	<u>\$ 7,944,246</u>	<u>\$( 11,835,420)</u>	<u>\$ 66,223,946</u>

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

Notes to Financial Statements, continued

**7. Long-Term Debt**

A. Long-Term Debt

	<u>2023</u>	<u>2022</u>
<p>On September 4, 2006, PPUC entered into a loan with a foreign bank not to exceed \$7,000,000 with interest at 3.5% per annum, due on December 11, 2026, to finance the purchase of portable generators, a crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators. The loan is guaranteed by the 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.</p>	\$ 1,400,000	\$1,800,00
<p>On March 28, 2014, PPUC entered into two loans with the Asia Development Bank, (ADB) passed through ROP to finance sanitation projects in the Koror and Airai areas. The first loan is for \$26,900,000 for twenty years with grace period of 5 years and bears interest equal to the sum of LIBOR plus 0.60% and a maturity premium of 0.10%. Principal is to be repaid semi-annually beginning April 1, 2018 at 2.5% of the total principal amount outstanding on each payment date. The second loan is for 1,258,000 Special Drawing Rights for twenty years with grace period of 8 years and bears interest at 1% per annum during the period prior to the first principal payment date and 1.5% per annum thereafter. Principal is to be repaid in semi-annual installments of \$37,040 beginning April 1, 2021. The loans are guaranteed by the ROP.</p>	21,082,136	22,397,000
<p>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.</p>	<u>10,000,000</u>	<u>10,000,000</u>
Total long-term debt	32,482,136	34,197,869
Less current maturities	<u>( 1,826,038)</u>	<u>( 1,807,251)</u>
	<u>\$30,656,098</u>	<u>\$32,390,618</u>

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

Notes to Financial Statements, continued

**7. Long-Term Debt, continued**

A. Long-Term Debt, continued

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

Year ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,826,038	\$ 845,624	\$ 2,671,662
2025	1,820,268	786,273	2,606,541
2026	1,820,268	729,726	2,549,994
2027	1,870,268	671,929	2,542,197
2028	1,920,268	622,102	2,542,370
2029 - 2033	9,601,340	2,314,961	11,916,301
2034 - 2038	8,925,669	1,005,222	9,930,891
2039 - 2043	2,844,630	322,882	3,167,512
2044 - 2047	<u>1,853,387</u>	<u>71,773</u>	<u>1,925,160</u>
	<u>\$32,482,136</u>	<u>\$7,370,492</u>	<u>\$39,852,628</u>

Movements in long-term bank debt for the years ended September 30, 2023 and 2022, are as follows:

	Balance at October 1, <u>2022</u>	<u>Additions</u>	<u>Repayments</u>	Balance at September <u>30, 2023</u>	Balance Due in One Year
Long-term debt	\$ <u>34,197,869</u>	\$ <u>---</u>	\$( <u>1,715,733</u> )	\$ <u>32,482,136</u>	\$ <u>1,826,038</u>
	Balance at October 1, <u>2021</u>	<u>Additions</u>	<u>Repayments</u>	Balance at September <u>30, 2022</u>	Balance Due in One Year
Long-term debt	\$ <u>29,717,758</u>	\$ <u>5,600,111</u>	\$( <u>400,000</u> )	\$ <u>34,197,869</u>	\$ <u>1,807,251</u>

Debt Covenants

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

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

Notes to Financial Statements, continued

**7. Long-Term Debt, continued**

A. Long-Term Debt, 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, 2023 and 2022.

B. Other Long-Term Liabilities

Changes in other long-term liabilities during the years ended September 30, 2023 and 2022 were as follows:

	Balance at October 1, <u>2022</u>	<u>Increases</u>	<u>Decreases</u>	Balance at September 30, 2023	Balance Due in One Year
Net pension liability	\$ <u>26,362,690</u>	\$ <u>---</u>	\$( <u>4,167,574</u> )	\$ <u>22,195,116</u>	\$ <u>---</u>
	Balance at October 1, <u>2022</u>	<u>Increases</u>	<u>Decreases</u>	Balance at September 30, 2023	Balance Due in One Year
Due to Republic of Palau	\$ 900,000	\$ ---	\$( 900,000)	\$ ---	\$ ---
Net pension liability	<u>27,696,488</u>	<u>---</u>	<u>(1,333,798)</u>	<u>26,362,690</u>	<u>---</u>
	<u>\$28,596,488</u>	<u>\$ ---</u>	<u>\$(2,233,798)</u>	<u>\$26,362,690</u>	<u>\$ ---</u>

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

Notes to Financial Statements, continued

**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.

**Membership**

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

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

**Summary of the Principal Provisions of the Plan**

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

**Eligibility to Participate**

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

**Service**

Vesting Service: Includes membership service and prior service credit.

Membership Service: A year of membership service is earned for a year of service rendered 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.

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

Notes to Financial Statements, continued

**8. Pension Plan, continued**

**Summary of the Principal Provisions of the Plan, continued**

**Service, continued**

Prior Service Credit: Persons becoming members of the Plan on October 1, 1987 are entitled to Prior Service Credit for services rendered as an employee of participating agencies, the Trust Territory of the Pacific Islands (TTPI), 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.

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.

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

Notes to Financial Statements, continued

**8. Pension Plan, continued**

**Summary of the Principal Provisions of the Plan, continued**

**Pension Benefits, continued**

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:

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

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

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

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

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

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

Notes to Financial Statements, continued

**8. Pension Plan, continued**

**Summary of the Principal Provisions of the Plan, continued**

**Pension Benefits, continued**

- 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.

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.

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

Notes to Financial Statements, continued

**8. Pension Plan, continued**

**Member Contributions**

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

**Employer and Other Contributions**

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

PPUC contributed \$304,639 and \$312,882 to the Plan during the years ended September 30, 2023 and 2022, respectively, which were equal to the required statutory contributions for the respective year then ended.

**Actuarial Assumptions and Other Inputs**

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

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method
Amortization Method:	Level dollar, open with remaining amortization period of 30 years
Asset Valuation Method:	Market Value of Assets
Long-term Expected Rate of Return:	6.74% per year, net of investment expenses, including price inflation

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

Notes to Financial Statements, continued

**8. Pension Plan, continued**

**Actuarial Assumptions and Other Inputs, continued**

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:	<table border="0" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;">Age</th> <th style="text-align: left;">Disability</th> </tr> </thead> <tbody> <tr><td>25</td><td>0.21%</td></tr> <tr><td>30</td><td>0.18%</td></tr> <tr><td>35</td><td>0.25%</td></tr> <tr><td>40</td><td>0.35%</td></tr> <tr><td>45</td><td>0.50%</td></tr> <tr><td>50</td><td>0.76%</td></tr> <tr><td>55</td><td>1.43%</td></tr> <tr><td>60</td><td>2.12%</td></tr> </tbody> </table>	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%
Age	Disability																		
25	0.21%																		
30	0.18%																		
35	0.25%																		
40	0.35%																		
45	0.50%																		
50	0.76%																		
55	1.43%																		
60	2.12%																		
Retirement Age:	100% at age 60																		
Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor																		
Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.																		

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

Notes to Financial Statements, continued

**8. Pension Plan, continued**

**Actuarial Assumptions and Other Inputs, continued**

Duty vs Non-duty related disability:	100% Duty related
Refund of Contributions:	80% of terminated vested members elect a refund of contributions

***Investment Rate of Return***

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
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)	<u>4%</u>	8.72%
	<u>100%</u>	

***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%.

***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, 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.

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

Notes to Financial Statements, continued

**8. Pension Plan, continued**

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

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

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

***Pension Liability***

As of September 30, 2023 and 2022, PPUC's proportionate share of the ROP net pension liability is as follows:

	<u>2023</u>	<u>2022</u>
EPO	\$13,459,403	\$16,086,799
WWO	<u>8,735,713</u>	<u>10,275,891</u>
	<u>\$22,195,116</u>	<u>\$26,362,690</u>

As of September 30, 2023 and 2022, PPUC's proportion of the ROP overall liability is as follows:

	<u>2023</u>	<u>2022</u>
EPO	5.11%	5.28%
WWO	3.32%	3.37%

***Pension Expense***

For the years ended September 30, 2023 and 2022, PPUC recognized pension expense as follows:

	<u>2023</u>	<u>2022</u>
EPO	\$1,360,002	\$1,581,607
WWO	<u>754,706</u>	<u>890,963</u>
	<u>\$2,114,708</u>	<u>\$2,472,570</u>

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

Notes to Financial Statements, continued

**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, 2023 and 2022, PPUC reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2023</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>EPO:</u>		
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	<u>1,805,546</u>	<u>529,505</u>
	<u>4,686,837</u>	<u>6,029,000</u>
<u>WWO:</u>		
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	<u>538,106</u>	<u>221,213</u>
	<u>2,408,184</u>	<u>3,790,614</u>
	<u>\$7,095,021</u>	<u>\$9,819,614</u>

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

Notes to Financial Statements, continued

**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*

	<u>2022</u>	
	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
<u>EPO:</u>		
Changes of assumptions	\$3,079,963	\$ 800,588
Net difference between projected and actual earnings on pension plan investments	22,635	103,020
Difference between expected and actual experience	395,516	2,611,795
Contributions subsequent to the measurement date	190,924	---
Changes in proportion and difference between EPO contributions and proportionate share of contributions	<u>2,442,767</u>	<u>149,717</u>
	<u>6,131,805</u>	<u>3,665,120</u>
<u>WWO:</u>		
Changes of assumptions	1,967,412	511,398
Net difference between projected and actual earnings on pension plan investments	14,459	65,807
Difference between expected and actual experience	252,647	1,668,357
Contributions subsequent to the measurement date	121,958	---
Changes in proportion and difference between WWO contributions and proportionate share of contributions	<u>788,140</u>	<u>104,447</u>
	<u>3,144,616</u>	<u>2,350,009</u>
	<u>\$9,276,421</u>	<u>\$6,015,129</u>

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:

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

Notes to Financial Statements, continued

**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:	
2024	\$ 101,879
2025	( 60,246)
2026	( 128,185)
2027	( 444,986)
2028	( 713,844)
Thereafter	<u>( 281,518)</u>
	<u>(1,526,900)</u>
WFO:	
2024	( 85,348)
2025	( 121,988)
2026	( 150,873)
2027	( 425,930)
2028	( 547,249)
Thereafter	<u>( 170,944)</u>
	<u>(1,502,332)</u>
	<u>\$<u>(3,029,232)</u></u>

***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. At years 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.

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

Notes to Financial Statements, continued

**9. Related Party Transactions**

*Sale of Utility Services*

Utility services of \$8,639,986 and \$8,190,498 were rendered to the ROP for the years ended September 30, 2023 and 2022, respectively. PPUC provides utility services to the ROP at the same rates charged to third parties.

Receivable from affiliate of \$190,599 and \$222,970 at September 30, 2023 and 2022, 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, 2023 and 2022, PPUC recognized \$0 and \$26,220, respectively, of WWO operating subsidies from the ROP.

ROP provided appropriations totaling \$2,550,000 to help reduce the impact of rising fuel prices for the year ended September 30, 2022.

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.

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

Notes to Financial Statements, continued

**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, 2023, PPUC has various on-going construction contracts with a \$18 million contract price of which \$3 million remained as outstanding commitments.

**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.

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

Notes to Financial Statements, continued

**13. Dependency on the Republic of Palau**

PPUC incurred an operating loss of \$4,913,026 and \$7,634,086 for the years ended September 30, 2023 and 2022, respectively, which mainly due to the operating loss of \$5,182,741 and \$6,724,571 incurred by WWO, respectively. PPUC will continue to depend on ROP subsidies until the WWO has achieved a full cost recovery as mandated by the RPPL 9-4. Management has taken the following actions and measures to address losses from operations and negative cash flows from operations:

- a. PPUC submitted proposed WWO rate to Palau Energy and Water Administration (PEWA) in April 2022, which was approved by PEWA in October 2022 and implemented in May 2023. PPUC also introduced another tariff proposal, which was implemented in February 2025.
- b. PPUC seeks assistance from ROP to support operations and to pay off ADB KASP loan. Several letters were sent by PPUC to ROP seeking for financial support. A letter from the Board was also transmitted seeking assistance to pay off ADB KASP loan.
- c. PPUC indicate cost cutting measures to manage labor by optimizing schedules especially overtime. For WWO operations, no capital improvement projects, and fixed assets were purchased except for those that are ADB related projects.
- d. PPUC is continuously looking for grants to help with the operations. In FY 2023, PPUC received grants from JICA to reduce Non-Revenue Water that focuses on strengthening capacity. PPUC also received grants from Embassy of Japan for the wastewater vacuum truck and from the Government of Italy for the Airai Well Development and Groundwater Prospecting Project. PPUC also applied for another grant from JICA for the grid upgrade and from ADB for the completion of KASP which are expected to be approved in FY 2024 – FY 2026.

## 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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Republic of Palau net pension liability	\$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	\$182,080,332
PPUC's proportionate share of the net pension liability	\$ 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	\$ 12,920,967
PPUC's proportion of the net pension liability	8.43%	8.65%	8.04%	8.03%	7.96%	6.96%	6.42%	6.34%	6.43%	7.10%
PPUC's covered-employee payroll*	\$ 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	\$ 2,964,580
PPUC's proportionate share of the net pension liability as percentage of its covered employee payroll	450.19%	500.62%	561.53%	516.20%	427.62%	447.75%	471.00%	444.45%	434.54%	435.84%
Plan fiduciary net position as a percentage of the total pension liability	8.69%	10.47%	8.42%	8.26%	10.24%	10.18%	10.55%	11.54%	14.01%	16.00%

\* 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**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$1,436,644	\$1,337,570	\$1,267,039	\$1,131,733	\$1,378,558	\$1,195,686	\$ 925,093	\$ 691,501	\$ 683,121	\$ 714,295
Contribution in relation to the actuarially determined contribution	\$ 304,639	\$ 312,882	\$ 295,938	\$ 287,987	\$ 280,290	\$ 241,937	\$ 201,110	\$ 183,373	\$ 178,010	\$ 178,540
Contribution deficiency	\$1,132,005	\$1,024,688	\$ 971,101	\$ 843,746	\$1,098,268	\$ 953,749	\$ 723,983	\$ 508,128	\$ 505,111	\$ 535,755
PPUC's covered-employee payroll *	\$5,077,317	\$5,266,023	\$4,932,300	\$4,799,783	\$4,671,500	\$4,032,283	\$3,398,382	\$3,076,703	\$3,022,976	\$2,964,580
Contribution as a percentage of covered-employee payroll	6.00%	5.94%	6.00%	6.00%	6.00%	6.00%	5.92%	5.96%	5.89%	6.02%

\* 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, 2023

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

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

Schedule 3, continued  
Combining Statement of Net Position, continued

	<u>Electric Power Operations</u>	<u>Water and Wastewater Operations</u>	<u>Eliminations</u>	<u>Total</u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>				
Net position:				
Net investment in utility plant	\$23,508,141	\$19,133,625	\$ ---	\$42,461,766
Unrestricted	<u>7,839,784</u>	<u>(27,253,806)</u>	<u>---</u>	<u>(19,414,022)</u>
Total net position	<u>31,347,925</u>	<u>( 8,120,181)</u>	<u>---</u>	<u>23,227,744</u>
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	<u>1,173,937</u>	<u>167,952</u>	<u>---</u>	<u>1,341,889</u>
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	<u>13,459,403</u>	<u>8,735,713</u>	<u>---</u>	<u>22,195,116</u>
Total liabilities	<u>29,782,721</u>	<u>52,622,600</u>	<u>(15,882,593)</u>	<u>66,522,728</u>
Deferred inflows of resources from pension	<u>6,029,000</u>	<u>3,790,614</u>	<u>---</u>	<u>9,819,614</u>
	<u>\$67,159,646</u>	<u>\$48,293,033</u>	<u>\$(15,882,593)</u>	<u>\$99,570,086</u>

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

Schedule 3  
Combining Statement of Net Position, continued

September 30, 2022

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

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

Schedule 3, continued  
Combining Statement of Net Position, continued

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

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, 2023

	<u>Electric Power Operations</u>	<u>Water and Wastewater Operations</u>	<u>Eliminations</u>	<u>Total</u>
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	<u>2,296,886</u>	<u>320,348</u>	<u>---</u>	<u>2,617,234</u>
Total operating revenues	32,180,570	5,496,438	(3,647,423)	34,029,585
Provision for uncollectible receivables	( 211,207)	( 179,928)	<u>---</u>	( 391,135)
Net operating revenues	<u>31,969,363</u>	<u>5,316,510</u>	<u>(3,647,423)</u>	<u>33,638,450</u>
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	<u>282,650</u>	<u>---</u>	<u>( 9,799)</u>	<u>272,851</u>
Total operating expenses	<u>31,062,789</u>	<u>11,136,110</u>	<u>(3,647,423)</u>	<u>38,551,476</u>
Operating income (loss)	<u>906,574</u>	<u>( 5,819,600)</u>	<u>---</u>	<u>( 4,913,026)</u>
Nonoperating revenues (expenses):				
Grants	10,730	488,894	---	499,624
Operating subsidies from the Republic of Palau	19,983	---	---	19,983
Interest income	584	399	---	983
Interest expense	( 149,761)	( 1,197,990)	---	( 1,347,751)
Loss on disposal of utility plant	( 14,144)	---	---	( 14,144)
Others	<u>( 43,563)</u>	<u>( 25,408)</u>	<u>---</u>	<u>( 68,971)</u>
Total nonoperating expenses, net	<u>( 176,171)</u>	<u>( 734,105)</u>	<u>---</u>	<u>( 910,276)</u>
Change in net position	730,403	( 6,553,705)	---	( 5,823,302)
Net position at beginning of year	<u>30,617,522</u>	<u>( 1,566,476)</u>	<u>---</u>	<u>29,051,046</u>
Net position at end of year	<u>\$31,347,925</u>	<u>\$ ( 8,120,181)</u>	<u>\$ ---</u>	<u>\$23,227,744</u>

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, 2022

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

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

Schedule 5  
Combining Statement of Cash Flows

Year ended September 30, 2023

	<u>Electric Power Operations</u>	<u>Water and Wastewater Operations</u>	<u>Eliminations</u>	<u>Total</u>
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	<u>1,406,340</u>	<u>446,498</u>	---	<u>1,852,838</u>
Cash flows from investing activities:				
Interest income	<u>584</u>	<u>398</u>	---	<u>982</u>
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	<u>( 12,850)</u>	<u>291,853</u>	---	<u>279,003</u>
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	<u>( 6,492,560)</u>	<u>494,140</u>	---	<u>( 5,998,420)</u>
Net change in cash and cash equivalents	( 5,098,486)	1,232,889	---	( 3,865,597)
Cash and cash equivalents at beginning of year	<u>12,274,952</u>	<u>1,395,735</u>	---	<u>13,670,687</u>
Cash and cash equivalents at end of year	<u>\$ 7,176,466</u>	<u>\$2,628,624</u>	<u>\$ ---</u>	<u>\$ 9,805,090</u>

Supplemental information on noncash capital 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

	<u>Electric Power Operations</u>	<u>Water and Wastewater Operations</u>	<u>Eliminations</u>	<u>Total</u>
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	<u>\$1,406,340</u>	<u>\$ 446,498</u>	<u>\$ ---</u>	<u>\$1,852,838</u>

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

**Schedule 5**  
**Combining Statement of Cash Flows**

Year ended September 30, 2022

	<u>Electric Power Operations</u>	<u>Water and Wastewater Operations</u>	<u>Eliminations</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from customers	\$24,034,358	\$4,315,066	\$(3,348,790)	\$25,000,634
Cash payments to suppliers for goods and services	(21,622,451)	(2,190,935)	3,348,790	(20,464,596)
Cash payments to employees for services	<u>( 3,373,367)</u>	<u>(2,385,826)</u>	<u>---</u>	<u>( 5,759,193)</u>
Net cash used in operating activities	<u>( 961,460)</u>	<u>( 261,695)</u>	<u>---</u>	<u>( 1,223,155)</u>
Cash flows from investing activities:				
Interest income	<u>425</u>	<u>148</u>	<u>---</u>	<u>573</u>
Cash flows from non-capital financing activities:				
Appropriations received from the Republic of Palau	2,550,000	26,200	---	2,576,220
Cash received from grantor agencies	18,705	13,545	---	32,250
Other non-capital activities	<u>( 759)</u>	<u>( 239,200)</u>	<u>---</u>	<u>( 239,959)</u>
Net cash provided by (used in) non-capital financing activities	<u>2,567,946</u>	<u>( 199,435)</u>	<u>---</u>	<u>2,368,511</u>
Cash flows from capital and related financing activities:				
Proceeds from issuance of long-term debt	5,000,000	1,302,706	---	6,302,706
Principal payment on long-term debt	( 400,000)	( 702,594)	---	( 1,102,594)
Interest paid on long-term debt	( 186,267)	( 328,051)	---	( 514,318)
Repayments of reimbursable grant from the Republic of Palau	( 900,000)	---	---	( 900,000)
Acquisition of utility plant	<u>( 359,985)</u>	<u>( 873,119)</u>	<u>---</u>	<u>( 1,233,104)</u>
Net cash provided by (used in) capital and related financing activities	<u>3,153,748</u>	<u>( 601,058)</u>	<u>---</u>	<u>2,552,690</u>
Net change in cash and cash equivalents	4,760,659	(1,062,040)	---	3,698,619
Cash and cash equivalents at beginning of year	<u>7,514,293</u>	<u>2,457,775</u>	<u>---</u>	<u>9,972,068</u>
Cash and cash equivalents at end of year	<u>\$12,274,952</u>	<u>\$1,395,735</u>	<u>\$ ---</u>	<u>\$13,670,687</u>
Supplemental information and noncash financing activities:				
Transfer of long-term debt	\$(4,100,000)	\$4,100,000		

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

Schedule 5, continued  
Combining Statement of Cash Flows, continued

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

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, 2023

	<u>Electric Power Operations</u>	<u>Water and Wastewater Operations</u>
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	<u>2,296,886</u>	<u>320,348</u>
	<u>\$32,180,570</u>	<u>\$ 5,496,438</u>
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	<u>1,181,452</u>	<u>636,859</u>
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	<u>466,783</u>	<u>350,797</u>
	<u>\$31,062,789</u>	<u>\$11,136,110</u>

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, 2022

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

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

Management and the Board of Directors  
Palau Public Utilities Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Palau Public Utilities Corporation (PPUC), which comprise the statement of net position as of September 30, 2023, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 25, 2026.

### **Internal Control Over Financial Reporting**

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

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

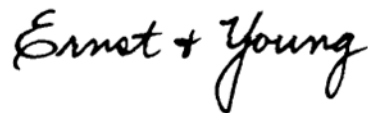
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

The logo for Ernst + Young, featuring the company name in a stylized, cursive script font.

March 25, 2026