

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
**(A Component Unit of the Republic of Palau)**

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**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**

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**Years Ended December 31, 2023 and 2022**

# **PALAU NATIONAL COMMUNICATIONS CORPORATION**

(A Component Unit of the Republic of Palau)

## **TABLE OF CONTENTS** December 31, 2023 and 2022

<b><u>ITEM</u></b>	<b><u>PAGE</u></b>
<b>I. FINANCIAL SECTION</b>	
Independent Auditor's Report on Financial Statements	1-3
Management's Discussion and Analysis	4-10
Financial Statements	
Statements of Net Position	11
Statements of Revenues, Expenses and Changes in Net Position	12
Statements of Cash Flows	13-14
Notes to Financial Statements	15-55
Supplementary Schedules	
Budget vs. Actual (GAAP Basis)	56
Schedule of Functional Expenses	57
Schedule of Functional Expenses by Division	58
Schedule of Proportionate Share of the Net Pension Liability	59
Schedule of Pension Contributions	60
<b>II. REPORT ON INTERNAL CONTROL AND ON COMPLIANCE</b>	
Independent Auditor's Report 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>	61-62
Schedule of Findings and Responses	63
Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Telecommunications Borrowers	64-65



# **BURGER · COMER · MAGLIARI** **CERTIFIED PUBLIC ACCOUNTANTS**

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Palau National Communications Corporation:

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Palau National Communications Corporation (PNCC), a component unit of the Republic of Palau (ROP), as of and for the years December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise PNCC'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 PNCC at December 31, 2023 and 2022 and the changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***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 PNCC's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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## ***Auditor's Responsibilities 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 PNCC'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 PNCC'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 (MD&A) on pages 4 through 10, the Schedule of Proportional Share of the Net Pension Liability on page 59, the Schedule of Pension Contributions on page 60 and the Schedule of Budget versus Actual on page 56, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the

basic financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of PNCC's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Palau National Communications Corporation's basic financial statements as a whole. The Schedules of Functional Expenses on page 57 and 58 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2024 on our consideration of PNCC'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 PNCC'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 PNCC's internal control over financial reporting and compliance.



Koror, Republic of Palau  
September 12, 2024

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis  
December 31, 2023

**Introduction**

This section presents the financial analysis of Palau National Communications Corporation's (PNCC) performance for the fiscal year ended December 31, 2023. It also includes a comparison with the prior years ended December 31<sup>st</sup>, 2022, and 2021.

**Business Overview**

Palau National Communications Corporation (PNCC) delivers telecommunications services across Palau through its Mobile and Fixed Line networks. PNCC's offerings include:

- Mobile Data and Voice services using 4G, 3G, and 2G cellular systems with near nationwide coverage.
- Fixed-line Broadband Internet through ADSL and VDSL technologies over copper lines, as well as P2P fibre connections for larger corporate and government clients.
- Digital TV service provided via copper coaxial cable.
- Landline Phone service delivered over copper cable.

**Subscribers**

In 2023, mobile subscriptions grew by 12.5%, with Postpaid services increasing by 2.9% and Prepaid services by 14.8%. While mobile subscribers had consistently risen since 2018, the COVID-19 pandemic caused a decline in 2020. However, from 2021 to 2023, subscriptions rebounded as economic activity recovered and demand for mobile services rose again.

The Fixed Line sector experienced a net decline of 0.9% in subscriptions, with Residential subscriptions dropping by 1.2% and Business/Government subscriptions by 0.2%.

Internet subscriptions saw a 1.4% year-over-year increase, primarily driven by HomeNet services. This steady growth, ongoing since 2018, is expected to persist through 2024 and accelerate sharply in 2025 with the rollout of FTTP (Fibre to the Premises) under the USDA's RUS ReConnect III program.

Meanwhile, Digital TV subscriptions fell by 15%, with a 19% drop in Residential services. This decline aligns with global trends in linear TV, pressured by OTT VOD platforms like Netflix and Hulu. However, the decline is expected to slow in 2024 and stabilize in 2025 as the FTTP rollout improves IPTV service quality.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis  
December 31, 2023

**Table 1. Subscribers 5 Year Trend**

<b>Subscribers</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>YoY</b>	<b>Variance</b>
<b>GSM Mobile</b>	32,868	26,359	27,335	27,929	31,434	3,505	12.5%
<i>Postpaid</i>	3,914	4,742	5,079	5,265	5,413	148	2.8%
<i>Prepaid</i>	28,954	21,617	22,256	22,664	26,021	3,357	14.8%
<b>Fixed Line (Telephone)</b>	6,801	6,179	6,165	6,154	6,100	-54	-0.9%
<i>Business/Government</i>	2,897	2,214	2,161	2,138	2,134	-4	-0.2%
<i>Residential</i>	3,904	3,964	4,004	4,016	3,966	-50	-1.2%
<b>Internet</b>	3,901	4,211	4,382	4,684	4,751	67	1.4%
<i>Palaunet</i>	1,086	944	844	775	750	-25	-3.2%
<i>DSL</i>	364	390	427	534	565	31	5.8%
<i>Domestic Leased Line/VL</i>	31	26	23	24	23	-1	-4.2%
<i>Wi-Fi Hotspots</i>	237	242	244	236	186	-50	-21.2%
<i>Homenet</i>	2,183	2,604	2,822	3,076	3,171	95	3.1%
<i>Premium WiFi</i>	-	5	22	37	56	19	51.4%
<b>Digital TV</b>	3,370	2,743	2,474	2,048	1,749	-299	-14.6%
<i>Single Dwelling</i>	2,623	2,377	2,103	1,687	1,368	-319	-18.9%
<i>Multi Units</i>	747	366	371	361	381	20	5.5%

**Financial Highlights**

At the end of 2023, total current assets increased by \$0.11 million, representing a 3.4% year-over-year growth. However, total assets decreased by \$2.5 million, primarily due to a \$2.22 million (13%) reduction in plant and equipment from depreciation. In 2023, receivables decreased by 0.26 million (37%) compared to 2022. This significant reduction was achieved through concerted efforts, including proactive customer reminders to settle outstanding bills, the establishment of an Amnesty Program to facilitate the payment of pending debts, and enhanced collaboration with both State and National Government entities to ensure timely payment of their obligations. These initiatives have contributed to improved receivables management and cash flow for the organization.

The 1.4% decline in total liabilities in 2023 was primarily driven by a reduction of \$0.76 million in notes payable and \$0.37 million in customer deposits. Additionally, PNCC significantly decreased other liabilities, including a 97% reduction in accrued expenses, attributed to lower annual and health leave balances, as well as a decrease in payroll and related taxes resulting from a reduced workforce of 131 employees in 2022 to 117 employees in 2023. Furthermore, there was an 18% decrease in lease liabilities, contributing to the overall reduction in total liabilities. Accounts payable increased by \$0.65 million (50%) compared to 2022. This rise is primarily attributed to the costs incurred for upgrading the Mobile Network and enhancing infrastructure. Key investments included the replacement of Cell-sites and the Unit Extension batteries for improved operational efficiency. These upgrades were essential to maintaining and improving service quality, which contributed to the significant increase in accounts payable. In 2022, a negative net income of \$2.75 million increased the negative net position to \$7.7 million. In 2023,

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis  
December 31, 2023

a further negative net income of \$2.36 million brought the negative net position to \$9.7 million by year-end. In accordance with GASB 67 & 68, the pension liability of \$13.6 million for both 2022 and 2023 contributed to a cumulative deficit of -\$9.7 million as the net position for 2023.

**Statements of Net Position**  
**Years ended December 31, 2023, 2022, and 2021**

**Assets and Deferred Outflows of Resources**

	2023	2022	2021
Current assets:			
Cash	\$ 557,610	\$ 465,082	\$ 345,678
Restricted cash and cash equivalents	753,760	250,146	250,171
Receivables, net	696,377	1,336,291	1,718,117
Inventories, net	722,452	523,710	626,488
Prepaid expenses	477,212	302,368	193,874
Total current assets	3,207,411	2,627,451	3,134,328
Investments	1,889,601	2,712,124	2,353,857
Other noncurrent assets	110,953	54,300	54,300
Capital assets, net	14,813,945	17,031,370	19,544,319
Right-to-use assets, net	646,711	767,969	-
Total assets	20,668,621	26,849,834	25,086,804
Deferred outflows of resources:			
Deferred outflows from pension	4,686,869	4,284,465	4,686,869
Total assets and deferred outflows of resources	\$ 25,355,490	\$ 31,134,299	\$ 29,773,673

**Liabilities, Deferred Inflows of Resources and Net Position**

Current liabilities:			
Current portion of long-term debt	\$ 801,504	\$ 777,960	\$ 4,013,777
Current portion of lease liability	124,435	120,762	-
Accounts payable and accrued expenses	1,939,334	1,406,559	856,944
Payable to carriers, net	55,476	60,615	38,111
Unearned revenues	1,829,670	1,619,816	1,347,717
Customer deposits	69,601	442,485	485,171
Total current liabilities	4,820,020	4,428,197	6,741,720
Note payable, net of current portion	14,626,791	15,386,944	12,557,081
Lease liability, net of current portion	584,458	708,893	-
Net pension liability	13,660,411	13,660,411	13,660,411
Total liabilities	33,691,680	31,027,230	32,959,212
Deferred inflows of resources:			
Deferred inflows from pension	1,331,405	1,331,405	1,331,405
Net position:			
Net investment in capital assets	(614,350)	866,466	2,973,461
Restricted for:			
Debt service and reserve	250,472	250,446	250,171
Unrestricted	(9,303,717)	(8,975,681)	(7,740,576)
Total net position	(9,667,595)	(7,858,769)	(4,516,944)
Total liabilities, deferred inflows of resources and net position	\$ 25,355,490	\$ 31,134,299	\$ 29,773,673



**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis  
December 31, 2023

**Statements of Revenues, Expenses and Changes in Net Position**  
**Years ended December 31, 2023, 2022, and 2021**

In 2023, operating revenue decreased by \$850k, or 7.3%. This decline was significantly influenced by the implementation of a new tax system in Palau. On an underlying basis, removing the impacts of changes in taxation, total revenue in 2023 was \$11.95 million, an increase of \$0.23 million or 2% compared to 2022. Excluding the effects of the new tax system and comparing normalized Gross Revenue year-on-year, Cellular revenue remained flat year-on-year at \$5.7m, while Palaunet saw an increase of \$136k or 4.4%, and Local revenue an increase of \$139k or 7.2%. Digital Television revenue, which has been on a consistent downward trend since 2021, recorded an additional reduction of \$192k or 20% by year-end.

To mitigate these financial pressures, management implemented cost control measures aimed at sustaining revenue trends and reducing operating expenses. These actions resulted in a reduction of \$670k, or 5%, in operating costs. It should be noted that \$373k of the \$670k operating costs reduction in 2023 are as a result of the change in Palau's taxation system. The operational cost reductions were primarily realized in Plant Non-Specific Operations, Corporate Operations, and Customer Service Operations with savings achieved through reductions in headcount costs, infrastructure improvements, utility expenses, satellite contract renegotiations, and a change in IP transit provider.

**Table 2. Change in Net Position US\$m**

Change in Net Position US\$m	2021	2022	2023	Variance	Var. %
Operating revenues	\$ 11.65	\$ 11.72	\$ 10.87	\$ (0.85)	-7.3%
Operating expenses	\$ (13.59)	\$ (13.37)	\$ (12.70)	\$ 0.67	5.0%
Operating income	\$ (1.94)	\$ (1.64)	\$ (1.84)	\$ (0.20)	-12.2%
Non-operating income (expenses)	\$ (0.91)	\$ (1.11)	\$ (0.52)	\$ 0.59	53.2%
<b>Change in net position</b>	<b>\$ (2.85)</b>	<b>\$ (2.75)</b>	<b>\$ (2.36)</b>	<b>\$ 0.39</b>	<b>14.2%</b>

**Table 3. Revenue by Source US\$m**

Revenue Source US\$m	2021	2022	2023	Variance	Var. %
Cellular	\$ 5.74	\$ 5.76	\$ 5.23	\$ (0.53)	-9.2%
Long Distance	\$ (0.09)	\$ (0.05)	\$ (0.04)	\$ 0.01	44.4%
Palaunet	\$ 2.93	\$ 3.10	\$ 2.94	\$ (0.16)	-5.2%
Local	\$ 1.79	\$ 1.92	\$ 1.88	\$ (0.04)	-2.1%
Digital Television	\$ 1.11	\$ 0.94	\$ 0.68	\$ (0.26)	-27.7%
Miscellaneous	\$ 0.16	\$ 0.25	\$ 0.18	\$ (0.07)	-28.0%
Provision for doubtful accts	\$ -	\$ (0.20)	\$ -	\$ 0.20	
<b>Total</b>	<b>\$ 11.65</b>	<b>\$ 11.72</b>	<b>\$ 10.87</b>	<b>\$ (0.85)</b>	<b>-7.3%</b>

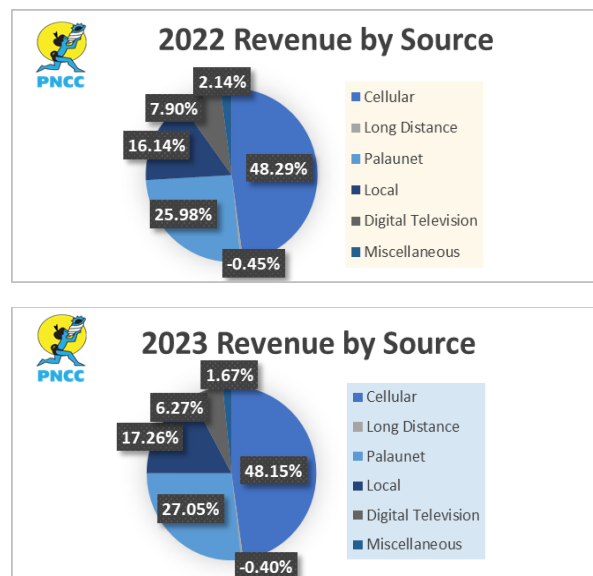
**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis  
December 31, 2023

On an underlying basis, removing the impact of changes in national taxation system in 2023, PNCC's revenue is on a recovery trajectory, following the economic challenges caused by COVID-19. The outlook for continued revenue recovery in 2024 remains promising, driven by an increase in tourism, US military projects and exercises, foreign labor, and new developments in private business. These factors point to a gradual revival of economic activity, which is crucial for PNCC's sustained recovery and growth.

Without the impact of the new tax system in 2023, the underlying revenue for Local increased by 7% (\$139k) driven by new homeowners, Internet revenue increased by 4% (\$136k) driven by rising demand for services such as DSL, Palaunet, VLAN, Homenet DSL, and Premium WiFi. Since 2019, the subscription base has steadily grown, showing a 1.4% increase by year-end.

**Chart 1. Revenue by Source 2022 and 2023 Comparison**

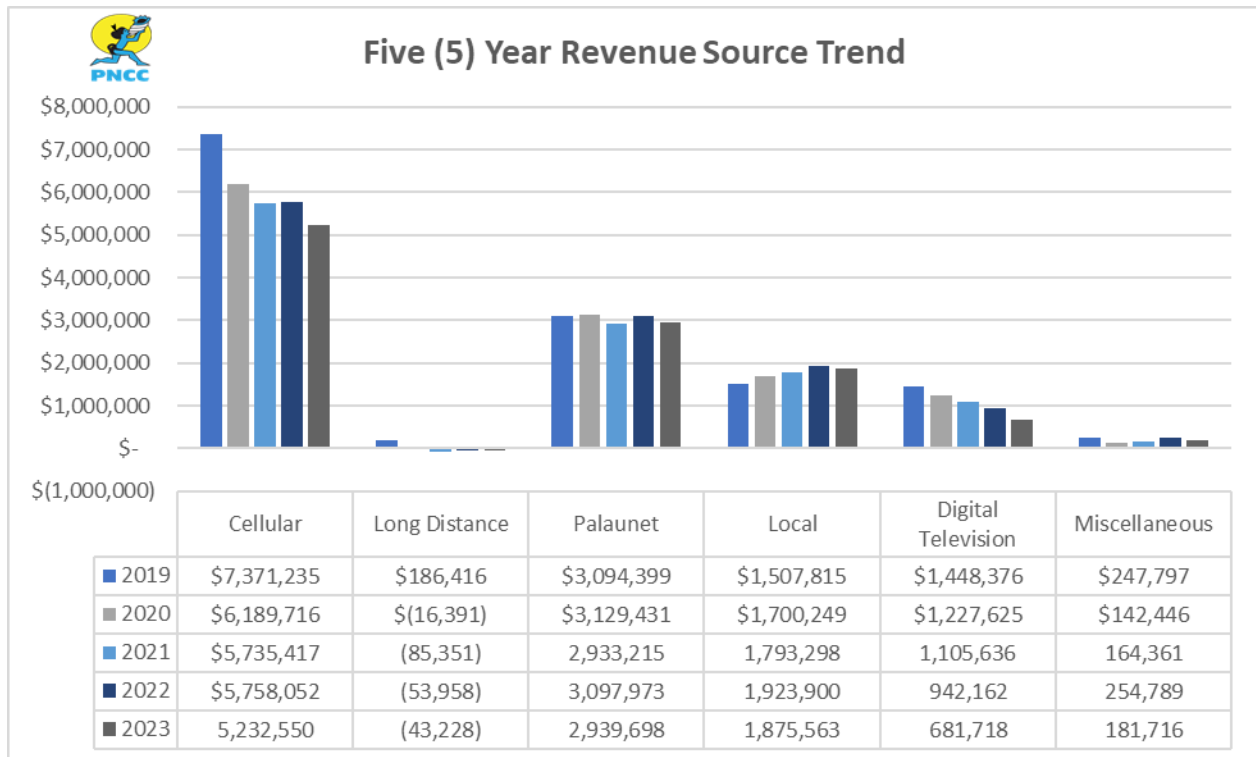


The summarized chart highlights the primary revenue sources, with cellular operations accounting for 48% of total revenue in 2023. Although this represents a slight year-on-year decrease of 0.14%, cellular remains the company's largest revenue stream. It will be the focal point for revenue growth in 2024 and a key driver of continued growth in 2025 as PNCC begins deployment of a new 4G/5G Standalone O-RAN Mobile Network, replacing the existing 2G/3G/4G system.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis  
December 31, 2023

**Chart 2. Revenue by Source 5 Year Trend**



The five-year revenue trend highlights the performance of PNCC's various revenue streams. Despite economic challenges affecting revenue generation, the company has continued to maintain and upgrade its infrastructure to meet customer communication needs. When normalized to remove the impacts of changes in Palau's taxation system in 2023, Gross Cellular revenue remained in line with the prior year, while Palaunet achieved a 7% increase, Local revenue experience a 4% growth, and Long-Distance services posted a 12% increase. These results reflect the company's solid performance across key service areas, demonstrating potential for future growth as market conditions stabilize.

### PNCC Strategic Planning Process

PNCC updated its Strategic Plan in 2018, covering a five-year period from 2019 to 2024. As we approach the conclusion of this plan, our objectives remain focused on:

- Accelerating sustainable growth and optimizing self-financing capabilities to create a world-class telecommunications environment for the nation of Palau.
- Building an organization where each individual is inspired, motivated, and aligned to best serve our customers.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis  
December 31, 2023

The updated strategic initiatives for the coming period focus on significant opportunities for service improvement and revenue growth, including the improvement of mobile data services, growth in residential broadband services, the addition of new and innovative products such as e-SIM capabilities, and the expansion of inter-carrier roaming agreements to cater to increasing inbound tourist numbers.

In Q2 2024, PNCC will commence an upgrade to its existing Mobile Network infrastructure, updating the network license to the latest software version and upgrading nine cell sites to add additional mobile data capacity and alleviate congestion.

The network design and planning phases of PNCC's Fiber to the Premises (FTTP) rollout commenced in Q4 2023 and will continue throughout 2024, with the network rollout scheduled to begin in Q1 2025. This project is funded by a \$35 million grant from the RUS ReConnect III program, granted on October 28, 2022. This funding will support our FTTP rollout from Kayangel to Angaur, providing high-speed internet access to all residents and businesses, significantly enhancing connectivity and enabling improved digital services to support economic growth across Palau.

Another critical component of our strategy is the modernization of our mobile network infrastructure. In June 2023, PNCC was awarded \$870,000 in grant funding from the U.S. Trade and Development Agency (USTDA) for the design and planning phases of our Mobile Network Modernization project. This project will replace our existing mobile network with secure and trusted 4G/5G Standalone Open Radio Access Network (O-RAN) infrastructure—the first of its kind in the Oceania region. The network rollout is expected to begin in Q1 2025, enabling enhanced capacity, coverage, and service quality for our customers.

By combining these resources, we aim to deliver a robust and scalable telecommunications network, positioning Palau as a technology leader in the region.

Looking ahead to 2024, PNCC will focus on thorough planning, design, and preparation for these major infrastructure projects. The year will be dedicated to ensuring all elements are in place for a successful rollout of the FTTP and the 4G/5G Standalone O-RAN network in 2025. This preparation will lay the foundation for significant improvements in our service offerings, ensuring that we are ready to meet the evolving needs of our customers and enhance the connectivity experience for all of Palau.

**CONTACTING PNCC'S FINANCIAL MANAGEMENT**

In conclusion, the Management's Discussion and Analysis for the year ended December 31, 2023, set forth in the report on the audit of PNCC, provides a general overview of PNCC's finances and demonstrates PNCC's transparency and accountability. For any additional information or questions, interested parties can contact the Chief Financial Officer at the Palau National Communications Corporation, P.O. Box 99, Koror, Republic of Palau 96940, or email [rramarui@pnccpalau.com](mailto:rramarui@pnccpalau.com) or call 587-9000.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
**(A Component Unit of the Republic of Palau)**

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**FINANCIAL SECTION**

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**Years Ended December 31, 2023 and 2022**

**PALAU NATIONAL COMMUNICATIONS CORPORATION**

(A Component Unit of the Republic of Palau)

Statements of Net Position  
December 31, 2023 and 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2023</u>	<u>2022</u>
Current assets:		
Cash	\$ 557,610	\$ 471,581
Receivables:		
Trade	1,514,007	1,594,418
Related party	620,911	755,139
Carriers, net	260,959	175,668
Other receivable	(993)	(9,397)
Allowance for doubtful accounts	<u>(1,698,507)</u>	<u>(1,560,858)</u>
Total receivables, net	696,377	954,970
Inventories, net	722,452	719,871
Prepaid expenses	<u>477,212</u>	<u>418,961</u>
Total current assets	2,453,651	2,565,383
Investments	1,889,601	1,977,456
Restricted cash and cash equivalents	753,760	753,734
Other noncurrent assets	110,953	54,300
Capital assets, net	14,813,945	17,031,370
Right of Use asset, net	<u>646,711</u>	<u>767,969</u>
Total assets	<u>20,668,621</u>	<u>23,150,212</u>
Deferred outflows of resources:		
Deferred outflows from pension	<u>4,686,869</u>	<u>4,686,869</u>
Total assets and deferred outflows of resources	<u>\$ 25,355,490</u>	<u>\$ 27,837,081</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current liabilities:		
Current portion of long-term debt	\$ 801,504	\$ 777,960
Current portion of lease liability	124,435	120,762
Accounts payable	1,942,701	1,291,066
Payable to carriers, net	55,476	60,615
Accrued expenses	(3,367)	115,494
Unearned revenues	1,829,670	1,619,816
Customer deposits	<u>69,601</u>	<u>442,485</u>
Total current liabilities	4,820,020	4,428,197
Note payable, net of current portion	14,626,791	15,386,944
Lease liability	584,458	708,893
Net pension liability	<u>13,660,411</u>	<u>13,660,411</u>
Total liabilities	<u>33,691,680</u>	<u>34,184,445</u>
Deferred inflows of resources:		
Deferred inflows from pension	<u>1,331,405</u>	<u>1,331,405</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	(614,350)	866,466
Restricted for:		
Debt service and reserve	250,472	250,446
Unrestricted	<u>(9,303,717)</u>	<u>(8,795,681)</u>
Total net position	<u>(9,667,595)</u>	<u>(7,678,769)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 25,355,490</u>	<u>\$ 27,837,081</u>

See accompanying notes to financial statements.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**

(A Component Unit of the Republic of Palau)

Statements of Revenues, Expenses and Changes in Net Position  
For The Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Cellular	\$ 5,232,550	\$ 5,758,052
Palaunet	2,939,698	3,097,973
Local	1,875,563	1,923,900
Digital television	681,718	942,162
Long distance	(43,228)	(53,958)
Miscellaneous	181,716	254,789
Provision for doubtful accounts	<u>-</u>	<u>(198,166)</u>
Total net operating revenues	<u>10,868,017</u>	<u>11,724,752</u>
Operating expenses:		
Plant specific:		
Operations	6,063,015	6,273,367
Depreciation	2,761,084	3,009,715
Corporate office	2,354,193	2,472,622
Customer service	1,084,886	1,139,227
Plant non-specific operations	<u>441,199</u>	<u>473,572</u>
Total operating expenses	<u>12,704,377</u>	<u>13,368,503</u>
Operating income loss	<u>(1,836,360)</u>	<u>(1,643,751)</u>
Nonoperating income (expense):		
Unrealized gain (loss) on investments	63,254	(338,710)
Grant Revenue	75,000	-
Income on investments	9,951	-
Other income (expense), net	163,783	(117,082)
Interest expense	<u>(464,454)</u>	<u>(652,358)</u>
Total nonoperating income (expense), net	<u>(152,466)</u>	<u>(1,108,150)</u>
Change in net position	(1,988,826)	(2,751,901)
Net position (deficit) at beginning of year	(7,678,769)	(4,516,944)
Adjustment for right-of-use asset	<u>-</u>	<u>(409,924.00)</u>
Adjusted net position (deficit) at beginning of year	<u>(7,678,769)</u>	<u>(4,926,868)</u>
Net position (deficit) at end of year	<u>\$ (9,667,595)</u>	<u>\$ (7,678,769)</u>

See accompanying notes to financial statements.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**

(A Component Unit of the Republic of Palau)

Statements of Cash Flows  
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from customers	\$ 10,906,378	\$ 12,487,899
Cash payments to suppliers for goods and services	(6,390,700)	(6,260,267)
Cash payments to employees	<u>(3,335,966)</u>	<u>(3,629,162)</u>
Net cash provided by operating activities	<u>1,179,712</u>	<u>2,598,470</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(422,401)	(753,504)
Additions from restricted cash and cash equivalents	(26)	(503,563)
Grants received	75,000	272,099
Interest paid	(441,216)	(625,853)
Repayment of long-term debt	<u>(736,609)</u>	<u>(405,954)</u>
Net cash used in financing activities	<u>(1,525,252)</u>	<u>(2,016,775)</u>
Cash flows from investing activities:		
Other income (expense), net	163,783	(117,082)
Unrealized gain (loss) on investments	63,254	(338,710)
Income on investments	(95,468)	-
Redemption of investments	<u>300,000</u>	<u>-</u>
Net cash used in investing activities	<u>431,569</u>	<u>(455,792)</u>
Net change in cash	86,029	125,903
Cash at beginning of year	<u>471,581</u>	<u>345,678</u>
Cash at end of year	<u>\$ 557,610</u>	<u>\$ 471,581</u>

See accompanying notes to financial statements.



**PALAU NATIONAL COMMUNICATIONS CORPORATION**

(A Component Unit of the Republic of Palau)

Statements of Cash Flows, Continued  
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,836,360)	\$ (1,643,751)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation and amortization	2,761,084	3,009,715
Noncash interest expense on lease liability	23,238	-
Unrealized gain (loss) on investments	-	338,710
Provision for doubtful accounts	137,649	198,166
Other income (expense), net	-	117,082
Right of use adjustment to net position	-	(409,924)
(Increase) decrease in assets:		
Receivables:		
Trade	80,411	180,458
Related party	134,228	(160,707)
Carriers, net	(85,291)	32,645
Other receivable	(8,404)	512,585
Inventories	(2,581)	(93,383)
Prepaid expenses	(58,251)	(225,087)
Right of use assets	-	(889,227)
Increase (decrease) in liabilities:		
Accounts payable	651,635	715,647
Payable to carriers, net	(5,139)	22,504
Accrued expenses	(118,861)	(166,031)
Customer deposits	(372,884)	(42,686)
Lease liability	(120,762)	829,655
Unearned revenues	<u>-</u>	<u>272,099</u>
Net cash provided by operating activities	<u>\$ 1,179,712</u>	<u>\$ 2,598,470</u>

See accompanying notes to financial statements.

# **PALAU NATIONAL COMMUNICATIONS CORPORATION**

(A Component Unit of the Republic of Palau)

Notes to Financial Statements

December 31, 2023 and 2022

## **(1) Organization**

Palau National Communications Corporation (PNCC), a component unit of the Republic of Palau (ROP), was created on August 23, 1982, under the provisions of the Republic of Palau Public Law (RPPL) 1-40. The law created a wholly owned government corporation managed by five (5) members of 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 PNCC is to establish and operate communications services as a communication common carrier within the ROP. PNCC conducts its operations on land and in buildings provided by the National Government of the ROP. PNCC has four divisions: PNCC, PNCC Wireless (Wireless), Digital Cable Television (DTV) formerly known as Island Cable Television (ICTV), and Palaunet, which provides local and long distance telephone services, cellular telecommunications services and equipment, digital cable television services, and internet services, respectively, within the ROP.

## **(2) Summary of Significant Accounting Policies**

The accounting policies of PNCC conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **A. Basis of Presentation**

The financial statements of PNCC have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. In 2012, PNCC adopted Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement identifies and consolidates accounting and financial reporting provisions that apply to state and local governments. Prior to the issuance of Statement No. 62, PNCC applied the standards and principles outlined in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary and Other Governmental Entities that Use Proprietary Fund Accounting*. GASB Statement No. 62, which supersedes Statement No. 20, is the primary resource for accounting guidance and principles.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

A. Basis of Presentation, continued

PNCC implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government as amended* by GASB Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in the statement of financial position.

PNCC follows the business-type activities requirements of GASB Statement No. 34. This approach requires the following components of PNCC’s financial statements:

- Management’s discussion and analysis
- Basic financial statements, including a statement of net position, statement of revenues, expenses and changes in net position and a statement of cash flows using the direct method; and
- Notes to financial statements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, required the PNCC to establish net position categories as follows:

*Net investment in capital assets:*

Capital assets net of accumulated depreciation, reduced by the outstanding principal balances of debt attributable to the acquisition, construction or improvements of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should be included in this component of net position. At December 31, 2023 and 2022, PNCC has deferred outflows of resources and deferred inflows of resources that are included as a component of net position.

*Restricted:*

Restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. At December 31, 2023 and 2022, PNCC have deferred outflows of resources and deferred inflows of resources that was included as a component of restricted net position.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

A. Basis of Presentation, continued

*PNCC's component of net position, continued*

*Restricted net position, continued*

*The PNCC's restricted net position categories are as follows:*

*Nonexpendable:* Net position subject to externally imposed stipulations that require PNCC to maintain them permanently. At December 31, 2023 and 2022, PNCC did not have any nonexpendable net position.

*Expendable:* Net position whose use by PNCC is subject to externally imposed stipulations that can be fulfilled by actions of the PNCC pursuant to those stipulations or release of those stipulations by the passage of time.

Assets that have been assigned as collateral for the Rural Utilities Service (RUS) loan are classified as restricted.

*Unrestricted:*

Net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. Unrestricted net position may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. At December 31, 2023 and 2022, PNCC had deferred outflows of resources and deferred inflows of resources that are included as a component of net position.

B. Measurement Focus and Basis of Accounting

Measurement focus refers to timing of recognition, that is, when revenues and expenditures, expenses, and transfers and assets, deferred outflows of resources, liabilities and deferred inflows of resources are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The accrual basis of accounting is utilized by proprietary funds. Under the accrual method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred. PNCC uses the accrual basis of accounting.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

B. Measurement Focus and Basis of Accounting, continued

PNCC maintains a chart of accounts in accordance with the Uniform System of Accounts for telephone companies of the United States of America Federal Communication Commission's Rules, and in conformity with accounting principles generally accepted in the United States of America (GAAP).

C. Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for uncollectible accounts receivable and management's estimate of depreciation expense which is based on estimated useful lives of the respective assets. The allowance for uncollectible accounts receivable is determined based on management estimates. While management believes the amount is adequate, the ultimate uncollectible balance may differ from the amounts provided.

D. Budget

In accordance with the ROP Code, the Board of Directors of PNCC adopts an annual budget on a proprietary fund basis and the budget is used as a management tool throughout the accounting cycle. All operating and capital expenditures and revenues are identified in the budgeting process. PNCC's budget is presented to the Olbiil Era Kelulau (OEK) for its review and comments no later than sixty days (60 days) before the budget's effective date (November 1). Pursuant to regulation of the ROP, after PNCC has repaid the RUS loan, PNCC is required to submit a detailed and itemized budget to the OEK for its approval no later than 60 days before it is to take effect.

Throughout the year, PNCC monitors and evaluates expenditure levels and patterns. The Board of Directors may authorize revisions to the budget based on the availability of financial resources. Formal budget revisions are authorized in the same manner as original budget submissions.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

D. Budget, continued

The supplementary information in the Management's Discussion and Analysis in pages 4 to 9 includes PNCC's analysis of the significant variations and major factors impacting the year 2022 and prior years within its five-year strategic plan and the currently known reasons for those significant variations that PNCC expects to affect its liquidity or ability to provide future services.

E. Assets, Liabilities and Net Position

*Cash*

Cash in the statement of cash flows includes cash on hand and cash in checking and savings accounts.

*Restricted Cash and Cash Equivalents*

Restricted cash and cash equivalents, including amounts restricted for repayment of debt owed to Rural Utilities Service (RUS), amounts restricted for contracts approved by the RUS and RUS revenues, are separately classified in the Statements of Net Position.

*Receivables and Allowance for Doubtful Accounts*

PNCC grants credit on an unsecured basis to individuals, businesses and governmental entities that are situated in the Republic of Palau, the United States of America, Japan and the Territory of Guam.

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 evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for uncollectible receivables charged to expense.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

E. Assets, Liabilities and Net Position, continued

*Allowance for Doubtful Accounts*

An analysis of the change in allowance for doubtful accounts for the years ended December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Balance at beginning of the year	\$ 1,560,858	\$ 1,362,692
Current year provision	<u>137,649</u>	<u>198,166</u>
Balance at end of year	<u>\$ 1,698,507</u>	<u>\$ 1,560,858</u>

*Inventories*

Inventories comprise telecommunication equipment, parts and cables and are stated at the lower of cost (average cost method) or market.

*Right-to-Use Assets*

Right-to-use (RTU) assets are recognized at the lease commencement date and represent the State's right to use an underlying asset for the lease term. RTU assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement and initial direct costs. Options to renew or terminate the lease are recognized as part of RTU assets and lease liabilities when it is reasonably certain the options will be exercised.

*Investments*

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and the amount of investments in any one issuer that represents five percent (5%) or more of total investments for the PNCC. At December 31, 2023 and 2022, there were no investments in any one issuer that exceeded five percent (5%) of total investments.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

E. Assets, Liabilities and Net Position, continued

*Investments, continued*

PNCC has formal policies in place as of December 31, 2023 and 2022 to address investment risks. The following investment policy governs the investment of assets of PNCC:

General:

- Any restrictions set forth by applicable law governing limits, size, or quality of investments, if more stringent than those of this investment policy, will be the governing restriction.
- U.S. and non-U.S. common stocks, ADRs (American Depositary Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.
- No individual security of any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of any Investment Manager's portfolio.
- Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
- Investments in a registered mutual fund managed by the Investment Manager are subject to prior approval by the Board of Directors.
- The following securities and transactions are not authorized: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; and short sales or margin transactions. Options and futures are restricted, except by petition to the Board of Directors for approval.

Equities:

- Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive. Comparisons to peer group characteristics will be used to evaluate and to assure consistency of each manager's stated strategy and style.
- Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges and over the counter.



**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

E. Assets, Liabilities and Net Position, continued

*Investments, continued*

- The Investment Managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the Investment Managers will be evaluated against their peers on the performance of the total funds under their direct management.
- Common stock and preferred stock of any institution or entity created or existing under the laws of the United States of America or any state, district, territory, or District of Columbia, or of any foreign country are permissible investments.

U.S. Fixed Income:

- All fixed income securities (with the exception of U.S. Treasury or Agency securities which are unrated) shall have a Moody's, Standard & Poor's and/or a Fitch's credit quality rating of no less than "BBB".
- No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the Investment Manager has specific written authorization. Total portfolio quality (capitalization weighted) shall maintain an "A" minimum rating.

Cash/Cash Equivalents:

- The following investments will be permitted:
  1. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations.
  2. Commercial Paper: All commercial paper issuers must maintain an "A-1" rating by Standard & Poor's Corporation and a "P-1" rating by Moody's Investor Service and be issued by corporations having total assets in excess of one billion dollars (\$1,000,000,000).
  3. Certificates of Deposit: All certificate of deposit issuers must have a minimum capital of ten million dollars (\$10,000,000).
  4. Repurchase Agreements: Repurchase agreements must be collateralized with either: (1) U.S. Treasury or Agency Securities with a market value of 102%, marked to market daily; or (2) money market instruments which meet the qualifications of the Statement and with a market value of 102%, marked to market daily.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

E. Assets, Liabilities and Net Position, continued

*Investments, continued*

5. Money Market Funds: Money Market Funds must be registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940.

- No single issue shall have a maturity of greater than one (1) year.
- The money market funds must have an average maturity of less than one (1) year.

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

*Capital Assets*

Capital assets are stated at cost less accumulated depreciation and any impairment in value. Depreciation expense is provided using the straight-line method over the estimated useful lives of the respective assets. Major improvements and betterments which increase the usefulness and efficiency or prolong the life of the asset are capitalized, while the costs of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, are charged to expense as these costs are incurred.

Depreciation expense for all capital assets is provided for on the straight-line basis over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Telecommunications equipment	5 - 25 years
Central office equipment	3 - 17 years
Building and general support equipment	3 - 30 years
Cable television equipment	2 - 20 years
Wireless equipment	3 - 15 years
Furniture and fixtures	5 - 10 years
Vehicles	6 years

*Review of Carrying Value of Capital Assets for Impairment*

PNCC reviews the carrying value of capital assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

E. Assets, Liabilities and Net Position, continued

*Review of Carrying Value of Capital Assets for Impairment, continued*

In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors. The management of PNCC does not believe that any impairment exists for the years ending December 31, 2023 and 2022.

*Capitalization of Interest*

Interest is capitalized by PNCC when it is determined to be material. PNCC capitalizes interest in accordance with GASB Statement No. 62. Interest is capitalized for costs incurred on funds used to construct or acquire property, plant and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life.

*Other Noncurrent Assets*

Other noncurrent assets represent refundable deposits related to PNCC's subscription of television channels and programs for its digital television services. At December 31, 2023 and 2022, refundable deposit was \$54,300 and \$60,773, respectively, and are reflected as other noncurrent assets in the accompanying financial statements.

*Compensated Absences*

Compensated absences are those absences for which employees will be paid, such as annual vacation leave and health (sick) leave. PNCC recognizes all vested vacation leave benefits accrued by its employees when earned. Employees are credited annual leave with pay of 80, 120, and 160 hours per year depending upon their length of service with PNCC. An employee cannot carry over to the following calendar year accumulated annual vacation leave in excess of 80 hours for 5 to 9 years of service, and 120 hours for employees with over 10 years of service. However, a carryover of additional annual leave may be allowed upon request and approval by the Management when it is determined to be in the interest of PNCC. At December 31, 2023 and 2022 accrued annual leave totaled \$122,894 and \$145,441, respectively, and is included in the Statements of Net Position as a component of accrued expenses. At December 31, 2023 and 2022, all compensated absences are current. For the years ended December 31, 2023 and 2022, annual vacation leave taken totaled \$177,902 and \$204,375, respectively, and is included in the Statements of Revenues, Expenses and Changes in Net Position as a component of operating expenses. No liability is recorded for non-vesting accumulating rights to receive health or sick pay benefits.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

E. Assets, Liabilities and Net Position, continued

*Unearned Revenues*

Unearned revenues consist of funds received for network and infrastructure projects that will be recognized in future periods. These unearned revenues primarily relate to grants amounts received from the Republic of Palau and the United Nations Development Program in the amount of \$1,295,000 and \$174,679 as of December 31, 2023 and 2022, respectively. Additionally, unearned revenues consist of cash payments received from customers for which goods or services has not been earned or realized, and prepaid long distance sales in which actual traffic minutes were used and processed after the reporting period. At December 31, 2023 and 2022, unearned revenues from prepaid telecom billings were \$359,991 and \$210,369, respectively.

*Customer Deposits*

Customer deposits consist of subscriber deposits, installation fees and amounts received for related services and subscriptions to be provided in future periods. PNCC's requirement of customer deposit amount varies depending on the type of service or subscription applied for. These deposits are eligible for refunding after twelve (12) consecutive months of prompt payment history. If a deposit is held on an account at the time services are terminated, the deposit will be applied to the unpaid balance and a refund check is issued for the remainder. Refunds are not automatic; the customer must request a refund. There is no interest paid on customer deposits. At December 31, 2023 and 2022, customer deposits totaled \$69,601 and \$442,485, respectively.

*Advertising Costs*

Advertising costs are expensed as incurred. For years ended December 31, 2023 and 2022, advertising costs totaled \$109,115 and \$34,001, respectively, and are included as a component of customer service operations expense.

*Deferred Outflows of Resources*

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents 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. PNCC determined the differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability, pension contributions made subsequent to the measurement date and changes in proportion and difference between PNCC pension contributions and proportionate share of contributions qualify for reporting in this category.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

E. Assets, Liabilities and Net Position, continued

*Deferred Inflows of Resources*

In additions to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents 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. PNCC has determined the difference between projected and actual earnings on pension plan investments qualify for reporting in this category.

*Pensions*

Pensions are required to be recognized and disclosed using the accrual basis of accounting. PNCC recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents PNCC's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a defined benefit, cost sharing multi-employer plan. 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 as 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 on a closed basis over a five-year period beginning with the period in which the difference occurred.

*Taxes*

The Republic of Palau passed Public Law 11-11 to comprehensively reform and modernize the tax code, which introduced the Palau Goods and Services Tax. The BPT system replaces Gross Receipts Tax. The new tax system imposes a 10% tax on all goods and services, which the Company must collect and remit to the government. Eligible businesses are also required to remit quarterly Business Profit Tax payments equal to 2% of quarterly revenues. BPT allows an entity to carry forward losses during its tax year to offset future profits for the next 4 years. The new tax changes became effective as of January 1, 2023.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

E. Assets, Liabilities and Net Position, continued

*Operating and Non-operating Revenues and Expenses*

PNCC's Statements of Revenues, Expenses and Changes in Net Position distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses result from exchange transactions associated directly from the operation and maintenance of telecommunication services and equipment, cellular telecommunication operations, DTV operations, and Palaunet operation services. Nonexchange revenues and expenses resulting from nonrecurring income and costs such as interest income and expense are reported as non-operating revenues.

*Net Position*

Net position is the residual of assets and deferred outflows of resources over liabilities and deferred inflows of resources in a statement of financial position. At December 31, 2023, PNCC's net position is a negative \$7,678,769 meaning that total liabilities exceeded total assets. Net position consists of three components: net investment in capital assets net of related debt; restricted - expendable and nonexpendable; and unrestricted. Net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of the related debt. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. At December 31, 2023, PNCC had a negative change in net position totaling \$1,988,826.

When program expenses are incurred, where there are both restricted and unrestricted resources available to finance the program, expenses are first applied to restricted resources before using unrestricted resources.

F. New Accounting Standards

During the year ended September 30, 2023, PNCC implemented the following pronouncements:

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. Pursuant to GASB Statement No. 95, GASB Statement No. 91 will be effective for the year ended December 31, 2023.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

F. New Accounting Standards, continued

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 issue related to public-private and public-public partnership arrangements. This Statement also improves guidance for accounting and financial reporting for availability payment arrangements. GASB Statement No. 94 will be effective for the year ending December 31, 2023.

GASB 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. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-of-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 SBIT; and (4) requires note disclosures regarding a SBITA. GASB Statement No. 96 will be effective for the year ended December 31, 2023.

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

Provides clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.

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

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

Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge.

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

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

F. New Accounting Standards, continued

*Upcoming Accounting Standards*

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement provides guidance who effective dates are in future periods:

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

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

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 the Statement will improve the clarity of the accounting and financial reporting requirements for account changes and error corrections, which will result in greater consistency in application in practice. In turn, mor understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for decision making 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. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.



**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

F. New Accounting Standards, continued

*Upcoming Accounting Standards, continued*

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. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. 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. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 102 will be effective for fiscal year ending September 30, 2025.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(3) Deposits and Investments Risk

*Deposits*

GASB Statement No. 3 requires government entities to categorize deposits to give an indication of the level of credit risk assumed by the entity at year-end based on the following categories:

- Category 1 - deposits that are federally insured or collateralized with securities held by PNCC or by its agent in PNCC's name;
- Category 2 - deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in PNCC's name; or
- Category 3 - deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in PNCC's name and non-collateralized deposits.

At December 31, 2023 and 2022, the carrying amount of PNCC's cash balances was \$557,610 and \$471,581, respectively. The corresponding bank balances as of December 31, 2023 and 2022 were \$534,830 and \$497,652, respectively. From these deposits, \$434,402 and \$342,128, respectively, were subject to coverage by the Federal Deposit Insurance Corporation (FDIC) with the remaining balance exceeding insurable limits. PNCC does not require collateralization of bank accounts, and therefore, deposits in excess of FDIC insurance coverage are uncollateralized.

*Investments*

Governmental accounting standards require that the investments reported as of the balance sheet date be categorized according to level of credit risk. The level of credit risk is defined as follows:

- Category 1 - insured and registered for which the securities are held by PNCC or by its agent in PNCC's name;
- Category 2 - uninsured and registered for which the securities are held by the broker's or dealer's trust department or agent in PNCC's name; and
- Category 3 - uninsured and unregistered for which the securities are held by the broker or dealer or by its trust department or agent but not in PNCC's name.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(3) Deposits and Investments Risk, continued

*Fair Value Measurement of the Investments*

Investment and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined. The PNCC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant observable inputs; Level 3 inputs are significant unobservable inputs. PNCC has the following fair value measurements:

Investments by fair value level	12/31/2023	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Fixed income securities:				
Corporate Bonds	\$ 306,365	\$ -	\$ 306,365	\$ -
U.S. Treasury	314,326	314,326	-	-
Equity securities:				
U.S. Equities	869,063	869,063	-	-
Non-U.S. Equities	<u>158,895</u>	<u>158,895</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 1,648,649</u>	<u>\$ 1,342,284</u>	<u>\$ 306,365</u>	<u>\$ -</u>
Investments measured at net asset value (NAV):				
Exchanged-traded funds	<u>\$ 199,548</u>			
Investments measured at cost based measure:				
Money market funds	<u>\$ 41,404</u>			
Total investments	<u>\$ 1,889,601</u>			

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(3) Deposits and Investments Risk, continued

*Fair Value Measurement of the Investments, continued*

Investments by fair value level	12/31/2022	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Fixed income securities:				
Corporate Bonds	\$ 345,102	\$ -	\$ 345,102	\$ -
U.S. Treasury	334,800	334,800	-	-
Equity securities:				
U.S. Equities	893,146	893,146	-	-
Non-U.S. Equities	<u>161,159</u>	<u>161,159</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 1,734,207</u>	<u>\$ 1,389,105</u>	<u>\$ 345,102</u>	<u>\$ -</u>
Investments measured at net asset value (NAV):				
Exchanged-traded funds	<u>\$ 184,852</u>			
Investments measured at cost based measure:				
Money market funds	<u>\$ 58,397</u>			
Total investments	<u>\$ 1,977,456</u>			

*Restricted Cash and Cash Equivalents*

PNCC's restricted cash and cash equivalents must comply with Section 22 of the Pledge of Assets and Agreement to Create Trust (Rural Electrification Administration "REA" Loan Agreement), wherein PNCC is required to maintain a funded reserve in such amount that the balance of the funds covered by the First Note shall at no time be less than the outstanding principal and unpaid interest of the First Note. The reserve shall be maintained in accordance with a plan submitted to and approved in writing by the Administrator of REA (now the Rural Utilities Service or "RUS"). The balance of the reserve shall comply with the abovementioned Section 22 no later than one year from the date of this first advance of funds covered by the First Note. Thereafter, PNCC must maintain such compliance continuously. Assets held in the reserve must be held by a bank or institution or other depository whose funds are insured by the Federal government and shall consist of (a) Federal government securities held in PNCC's name; (b) other securities by an institution whose senior unsecured debt obligations are rated in any of the top three categories by a nationally recognized rating organization; or (c) cash. All of PNCC's restricted cash and cash equivalents with a market value of \$250,472, and \$250,446 as of December 31, 2023 and 2022, respectively, were deposited in FDIC insured financial institutions.

PNCC has voluntarily restricted funds recovered from a 2021 contract termination, which were part of the initial grant provided by the ROP Government to support PNCC's future network and infrastructure projects. As of December 31, 2023, and 2022, the restricted amount totaled \$503,288, respectively.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(3) Deposits and Investments Risk, continued

*Fair Value Measurement of the Investments, continued*

*Restricted Cash and Cash Equivalents, continued*

On December 31, 2015, PNCC's Emergency Reserve Fund (the Fund) has been invested with Raymond James as the new investment consultant, which holds the investments in PNCC's name. The PNCC Board of Directors are responsible for directing and monitoring the investment management of the Fund. The Board of Directors currently has no specific projected contribution or distribution requirements for the Fund. The Board of Directors shall, from time to time, designate accumulated reserves to be contributed to and managed under the auspices of the Fund. The Fund will be invested in such a way that adequate funds can be made available within a short period of time, should a distribution need arise.

At December 31, 2023 and 2022, PNCC's investment portfolios at fair value are as follows:

	2023			2022		
	Allocation		Market	Allocation		Market
	<u>Actual</u>	<u>Policy</u>	<u>Value</u>	<u>Actual</u>	<u>Policy</u>	<u>Value</u>
Fixed income securities:						
Corporate Bonds			\$ 306,365			\$ 345,102
U.S. Treasury			314,326			334,800
Federal Agencies			<u>-</u>			<u>-</u>
Total fixed income	33%	36%	620,691	34%	36%	679,902
Equity securities:						
U.S. Equities	46%	43%	869,063	45%	43%	893,146
Non-U.S. Equities	8%	19%	<u>158,895</u>	8%	19%	<u>161,158</u>
Total equity securities			1,027,958			1,054,304
Exchange-traded funds	11%	1%	199,548	10%	1%	184,852
Cash and cash equivalents	<u>2%</u>	<u>1%</u>	<u>41,404</u>	<u>3%</u>	<u>1%</u>	<u>58,398</u>
Total investments	<u>100%</u>	<u>100%</u>	<u>\$ 1,889,601</u>	<u>100%</u>	<u>100%</u>	<u>\$ 1,977,456</u>

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(3) Deposits and Investments Risk, continued

*Fair Value Measurement of the Investments, continued*

At December 31, 2023 and 2022, PNCC's fixed income securities had the following ratings and maturities:

As of December 31, 2023

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment maturities (in years)</u>				<u>Rating</u>	
		<u>Less than</u>	<u>1-5</u>	<u>6-10</u>	<u>More than</u>	<u>Moody</u>	<u>Standard</u>
		<u>1</u>			<u>10</u>		<u>&amp; Poor</u>
Corporate bonds	\$ 18,751	\$ -	\$ -	\$ 18,751	\$ -	Baa2	BBB
Corporate bonds	20,264	-	-	20,264	-	A2	A-
Corporate bonds	19,194	-	19,194	-	-	Baa2	BBB+
Corporate bonds	18,678	-	18,678	-	-	Baa2	BBB
Corporate bonds	19,683	-	-	19,683	-	Baa3	BBB
Corporate bonds	18,645	-	-	-	18,645	Baa3	BBB
Corporate bonds	18,298	-	18,298	-	-	A2	A
Corporate bonds	18,478	-	18,478	-	-	A2	BBB+
Corporate bonds	19,644	-	-	19,644	-	Baa1	BBB
Corporate bonds	19,454	-	-	19,454	-	A1	A-
Corporate bonds	19,011	-	-	19,011	-	Baa1	BBB
Corporate bonds	17,750	-	-	-	17,750	Aaa	AAA
Corporate bonds	19,489	-	-	19,489	-	Baa2	BBB
Corporate bonds	19,179	-	-	-	19,179	Baa1	BBB+
Corporate bonds	20,859	-	-	20,859	-	A3	A-
Corporate bonds	18,988	-	18,988	-	-	A1	BBB+
U.S. Treasury	40,838	-	-	-	40,838	Aaa	No rating
U.S. Treasury	19,042	-	-	-	19,042	Aaa	No rating
U.S. Treasury	30,254	-	-	-	30,254	Aaa	No rating
U.S. Treasury	12,129	-	-	-	12,129	Aaa	No rating
U.S. Treasury	30,886	-	30,886	-	-	Aaa	No rating
U.S. Treasury	18,531	-	18,531	-	-	Aaa	No rating
U.S. Treasury	24,932	-	24,932	-	-	Aaa	No rating
U.S. Treasury	19,186	-	19,186	-	-	Aaa	No rating
U.S. Treasury	25,020	-	25,020	-	-	Aaa	No rating
U.S. Treasury	25,041	-	25,041	-	-	Aaa	No rating
U.S. Treasury	18,394	-	18,394	-	-	Aaa	No rating
U.S. Treasury	31,540	-	31,540	-	-	Aaa	No rating
U.S. Treasury	18,533	-	-	18,533	-	Aaa	No rating
Total	<u>\$ 620,691</u>	<u>\$ -</u>	<u>\$ 287,166</u>	<u>\$ 175,688</u>	<u>\$ 157,837</u>		

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(3) Deposits and Investments Risk, continued

*Fair Value Measurement of the Investments, continued*

As of December 31, 2022							
<u>Investment type</u>	<u>Fair Value</u>	<u>Investment maturities (in years)</u>				<u>Rating</u>	
		<u>Less than</u>	<u>1-5</u>	<u>6-10</u>	<u>More than</u>	<u>Moody</u>	<u>Standard</u>
		<u>1</u>			<u>10</u>		<u>&amp; Poor</u>
Corporate bonds	\$ 21,872	\$ -	\$ -	\$ 21,872	\$ -	Baa2	BBB
Corporate bonds	19,210	-	-	-	19,210	A2	A-
Corporate bonds	21,425	-	21,425	-	-	Baa2	BBB
Corporate bonds	22,247	-	-	22,247	-	Baa2	BBB
Corporate bonds	20,205	-	-	20,205	-	Baa3	BBB
Corporate bonds	21,207	-	21,207	-	-	A3	A-
Corporate bonds	17,479	-	-	-	17,479	A3	A-
Corporate bonds	22,851	-	22,851	-	-	A3	A-
Corporate bonds	20,332	-	-	-	20,332	Baa1	BBB
Corporate bonds	20,026	-	-	-	20,026	A1	A-
Corporate bonds	20,516	-	-	20,516	-	Baa2	BBB
Corporate bonds	17,109	-	-	-	17,109	Aaa	AAA
Corporate bonds	19,899	-	-	19,899	-	Baa2	BBB
Corporate bonds	20,721	-	-	-	20,721	Baa1	BBB+
Corporate bonds	20,083	-	-	20,083	-	A3	A-
Corporate bonds	18,663	-	-	18,663	-	Baa2	BBB
Corporate bonds	21,257	-	21,257	-	-	A1	BBB+
U.S. Treasury	28,632	-	-	-	28,632	Aaa	No rating
U.S. Treasury	32,851	-	-	-	32,851	Aaa	No rating
U.S. Treasury	34,501	-	34,501	-	-	Aaa	No rating
U.S. Treasury	28,307	-	-	28,307	-	Aaa	No rating
U.S. Treasury	22,617	-	22,617	-	-	Aaa	No rating
U.S. Treasury	37,770	-	37,770	-	-	Aaa	No rating
U.S. Treasury	30,287	-	30,287	-	-	Aaa	No rating
U.S. Treasury	37,862	-	37,862	-	-	Aaa	No rating
U.S. Treasury	22,807	-	22,807	-	-	Aaa	No rating
U.S. Treasury	23,082	-	23,082	-	-	Aaa	No rating
U.S. Treasury	36,084	-	36,084	-	-	Aaa	No rating
Total	<u>\$ 679,902</u>	<u>\$ -</u>	<u>\$ 331,750</u>	<u>\$ 171,792</u>	<u>\$ 176,360</u>		

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(4) Capital Assets

PNCC's capital assets for the years ended December 31, 2023 and 2022 are summarized below as follows:

	Balance at December 31, 2022	Additions	Transfers/ Retirements	Balance at December 31, 2023
Regulated capital assets				
Cables and transmission lines	\$ 28,562,627	\$ -	\$ -	\$ 28,562,627
Transmission equipment	9,899,825	9,558	-	9,909,383
Buildings	10,047,277	-	-	10,047,277
Central office equipment	4,753,619	41,035	-	4,794,654
General support equipment	2,866,847	92,444	-	2,959,291
Customer premises wiring and equipment	1,600,215	-	-	1,600,215
Vehicles	901,223	75,880	-	977,103
Furniture and fixtures	36,806	-	-	36,806
Regulated capital assets, at cost	58,668,439	218,917	-	58,887,356
Accumulated depreciation	(49,882,310)	(1,275,275)	-	(51,157,585)
Regulated capital assets, at net book value	8,786,129	(1,056,358)	-	7,729,771
Non-regulated capital assets				
Cable television	3,714,389	10,598	-	3,724,987
Cellular	15,794,735	61,898	-	15,856,633
Palaunet	2,381,333	-	-	2,381,333
Non-regulated capital assets, at cost	21,890,457	72,496	-	21,962,953
Accumulated depreciation	(14,690,149)	(1,364,821)	-	(16,054,970)
Non-regulated capital assets, at net book value	7,200,038	(1,292,325)	-	5,907,983
Construction in progress	1,045,203	130,988	-	1,176,191
Total	\$ 17,031,370	\$ (2,217,695)	\$ -	\$ 14,813,945



**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

**(4) Capital Assets, continued**

	Balance at December 31, 2021	Additions	Transfers/ Retirements	Balance at December 31, 2022
Regulated capital assets				
Cables and transmission lines	\$ 28,474,413	\$ 88,214	\$ -	\$ 28,562,627
Transmission equipment	9,899,825	-	-	9,899,825
Buildings	10,047,275	2	-	10,047,277
Central office equipment	4,753,034	585	-	4,753,619
General support equipment	2,862,088	4,759	-	2,866,847
Customer premises wiring and equipment	1,569,727	30,488	-	1,600,215
Vehicles	850,848	50,375	-	901,223
Furniture and fixtures	36,806	-	-	36,806
Regulated capital assets, at cost	58,494,016	174,423	-	58,668,439
Accumulated depreciation	(48,231,035)	(1,651,275)	-	(49,882,310)
Regulated capital assets, at net book value	10,262,981	(1,476,852)	-	8,786,129
Non-regulated capital assets				
Cable television	3,698,478	15,911	-	3,714,389
Cellular	15,516,810	277,925	-	15,794,735
Palaunet	2,381,336	-	(3)	2,381,333
Non-regulated capital assets, at cost	21,596,624	293,836	(3)	21,890,457
Accumulated depreciation	(13,453,236)	(1,237,183)	-	(14,690,419)
Non-regulated capital assets, at net book value	8,143,388	(943,347)	(3)	7,200,038
Construction in progress	1,137,950	403,253	(496,000)	1,045,203
Total	\$ 19,544,319	\$ (2,016,946)	\$ (496,003)	\$ 17,031,370

Depreciation expense for the years ended December 31, 2023 and 2022 was \$2,640,096 and \$3,007,025, respectively, and is reported in the Statements of Revenues, Expenses and Changes in Net Position.

**(5) Related Party Transactions**

In the ordinary course of business, PNCC provides local and long distance telephone services, cellular telecommunications services and equipment, digital cable television services, and internet services, to the National government of the Republic of Palau and its component units. These services are provided at the same service rates and delinquent fees charged to all third-party customers. As of December 31, 2023 and 2022, amounts due from the Republic of Palau and its component units totaled \$620,911 and \$755,139, respectively.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(6) Long-term Debt

Long-term debt as of December 31, 2023 and 2022 are summarized below:

	<u>2023</u>	<u>2022</u>
Mortgage note payable to Rural Utilities Services (RUS) at 3.0% per annum, payable in monthly installments of \$104,515, and due October 2099. The note is collateralized by substantially all of PNCC's assets and a pledge of its revenues.	\$ 15,428,295	\$ 16,164,904
Less current portion	<u>(801,504)</u>	<u>(777,960)</u>
Long-term debt, net of current portion	<u>\$ 14,626,791</u>	<u>\$ 15,386,944</u>

*RUS Mortgage Note*

The original RUS note of \$39,143,000, approved in 1992, was unconditionally guaranteed by ROP. It stipulated that ROP would make debt service payments to RUS in the event of default. On April 8, 2009, RUS approved PNCC's request to rescind the remaining balance of \$395,047 of the mortgage note that had not been advanced. The RUS Mortgage and Security Agreement sets out certain financial ratios that must be met before declaring a dividend. If these ratios are not met, dividends may only be declared with the written approval of RUS.

Due to the severe financial impacts caused by the COVID-19 pandemic in 2020, PNCC entered into two Deferral Agreements with RUS. The first Deferral Agreement was signed on July 31, 2020, deferring principal payments for 12 months starting July 2020, with PNCC required to make interest payments during this period. After the initial deferment period ended in July 2021, an additional deferment period was agreed upon, extending until December 31, 2021. Once the deferment period concluded, PNCC was to resume monthly principal and interest payments until maturity. The deferred principal amount would be re-amortized after the deferment period.

The negative loan covenants required PNCC to submit monthly and quarterly financial statements, monthly billing and collection reports, balances of accounts receivable and accounts payable, and the number of customers by service offering type. During the principal deferment period, PNCC was prohibited from issuing bonuses or increments to employees or officers as a result of the deferral agreement. PNCC was also restricted from using its funds to pay any debts or other amounts owed to creditors other than RUS without prior written approval from RUS. However, PNCC was allowed to make payments for work performed and materials provided in the ordinary course of business. Additionally, without the prior written consent of RUS, PNCC could not make any membership withdrawals, unit redemptions, or other profit allocations to any enterprise of the Government of Palau, nor make any dividend payments or other distributions resembling investments, guarantees, extensions of credit, loans, or advance payments on obligations.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(6) Long-term Debt, continued

On January 20, 2022, PNCC entered into a Second Amended Deferral Agreement with RUS, deferring principal payments on the outstanding debt of the Note for 30 months, from July 31, 2020, through December 31, 2022. During this period, PNCC was required to make interest payments only. Consequently, the original Promissory Note dated May 16, 1994, in the amount of \$39,143,000, was amended on July 7, 2022, with a remaining unpaid principal balance of \$16,560,001. The amended Promissory Note reduced the interest rate from 4.59% to 3% and extended the maturity date from October 2029 to May 2039. All other deferment covenants, as outlined previously, remained applicable to the Second Amended Deferral Agreement. Beginning July 31, 2022, PNCC resumed making monthly principal and interest payments on the Note.

The management of PNCC believes it is in compliance with the RUS mortgage loan covenants at December 31, 2023 and 2022.

Future minimum principal and interest payments for the RUS mortgage are as follows:

Years Ending December 31,	Principal	Interest	Total
2024	\$ 801,504	\$ 476,224	\$ 1,277,728
2025	826,083	452,680	1,278,763
2026	851,127	428,102	1,279,229
2027	877,015	403,057	1,280,072
2028	903,591	377,169	1,280,760
2029-2033	4,947,870	1,445,540	6,393,410
2034-2038	5,806,048	693,081	6,499,129
2039	415,057	38,231	453,288
	<u>\$ 15,428,295</u>	<u>\$ 4,314,084</u>	<u>\$ 19,742,379</u>

Interest expense paid in 2023 and 2022 amounted to \$441,216 and \$652,358, respectively.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(6) Long-term Debt, continued

At December 31, 2023 and 2022, the changes in the long-term liabilities are as follows:

	Balance January 1, 2023	Additions	Reductions	Balance December 31, 2023	Current	Noncurrent
Rural Utilities Services	\$ 16,164,904	\$ -	\$ 736,609	\$ 15,428,295	\$ 801,504	\$ 14,626,791
Lease liability	829,655	-	120,762	708,893	124,435	584,458
Net Pension Liability	<u>13,660,411</u>	<u>-</u>	<u>-</u>	<u>13,660,411</u>	<u>-</u>	<u>13,660,411</u>
	<u>\$ 30,654,970</u>	<u>\$ -</u>	<u>\$ 857,371</u>	<u>\$ 29,797,599</u>	<u>\$ 925,939</u>	<u>\$ 28,871,660</u>

	Balance January 1, 2022	Additions	Reductions	Balance December 31, 2022	Current	Noncurrent
Rural Utilities Services	\$ 16,570,858	\$ -	\$ 405,954	\$ 16,164,904	\$ 777,960	\$ 15,386,944
Lease liability	-	829,655	-	829,655	120,762	708,893
Net Pension Liability	<u>13,660,411</u>	<u>-</u>	<u>-</u>	<u>13,660,411</u>	<u>-</u>	<u>13,660,411</u>
	<u>\$ 30,231,269</u>	<u>\$ 829,655</u>	<u>\$ 405,954</u>	<u>\$ 30,654,970</u>	<u>\$ 898,722</u>	<u>\$ 29,756,248</u>

(7) Leasing Arrangements

The entity leases a building and its premises for office space and general operations. The entity entered into a 5-year lease on May 24, 2019, with an option to extend for another 5 years. The lease payments are \$200,000 for each of the first two years, payable annually. And \$12,000 per month, payable at the beginning of every month thereafter.

The following summarizes the line items in the financial statements which include amounts for operating leases for the years ended December 31, 2023 and 2022:

	2023	2022
Right-of-use assets	<u>\$ 646,711</u>	<u>\$ 767,969</u>
Lease liabilities:		
Current	\$ 124,435	\$ 120,762
Non-current	<u>584,458</u>	<u>708,893</u>
	<u>\$ 708,893</u>	<u>\$ 829,655</u>
Operating lease expense:		
Amortization of right-of-use assets	\$ 121,258	\$ 121,258
Interest on operating lease liabilities	<u>23,238</u>	<u>26,504</u>
	<u>\$ 144,496</u>	<u>\$ 147,762</u>

Cash paid for amounts included in the measurement of lease liabilities totaled \$144,000.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(7) Leasing Arrangements, continued

The following is a schedule of future minimum lease payments, that are due for each of the next five years and thereafter, as follows:

Year ending December 31,	Principal	Interest	Total
2024	\$ 124,435	\$ 19,565	\$ 144,000
2025	128,220	15,780	144,000
2026	132,120	11,880	144,000
2027	136,138	7,862	144,000
2028	140,279	3,721	144,000
2029	47,701	298	47,999
	<u>\$ 708,893</u>	<u>\$ 59,106</u>	<u>\$ 767,999</u>

The Company uses its incremental borrowing rate of 3%, based on the information available at the commencement date, in determining the present value of lease payments.

(8) Pension Plan

General Information About the Pension Plan:

*Plan Description:*

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

The Fund issues a publicly available financial report that includes financial statements and required supplemental information. The most recent actuarial study conducted for the Fund and related report has not been issued as of the date of this report. Therefore, the net pension liability, deferred outflows of resources and deferred inflows of resources remain unchanged from the years ended December 2021 and 2020 as reported herein.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(8) Pension Plan, continued

*Membership:*

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

Inactive members or beneficiaries currently receiving benefits	1629
Inactive members entitled to but not yet receiving benefits	270
Inactive nonvested members	982
Active members	<u>3480</u>
Total members	<u>6361</u>

*Summary of the Principal Provisions of the Plan:*

Effective date: October 1, 1987

Plan Year: October 1, through September 30

*Service:*

Vesting Service: Includes membership service and prior service credit.

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

Prior Service Credit: Persons becoming members of the Plan on October 1, 1987 are entitled to Prior Year 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.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(8) Pension Plan, continued

General Information About the Pension Plan, continued:

*Pension Benefits:*

Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after 30 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 20 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, 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 actuarially equivalent lump sum contributions". In accordance with RPPL 9-2, members who retire after April 30, 2013 must not receive benefits greater than thirty thousand dollars per year. Further, the amount of benefits that a member receives should not be recalculated if the member is re-employed after the member begins receiving benefits under the Fund. Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

Currently, normal benefits are paid monthly and are 2% 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 then 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.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(8) Pension Plan, continued

General Information About the Pension Plan, continued:

*Pension Benefits, continued:*

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

<u>Factor</u>	<u>If the Spouse or Beneficiary is:</u>
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<sup>th</sup> per year for the first 3 years before age 60;
- plus an additional 1/18<sup>th</sup> per year for the next 3 years;
- plus an additional 1/24<sup>th</sup> per year for the next 5 years; and
- plus an additional 1/50<sup>th</sup> per year for each year in excess of 11 years.

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

- If the former member is not an employee at his or her 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.



**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(8) Pension Plan, continued

General Information About the Pension Plan, continued:

*Pension Benefits, continued:*

- If the member is an employee at his or her date of death and a spouse or beneficiary survives, the total death benefits 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 benefit.

Upon the death of a member or former member before commencement of his or her 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 years 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 total 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 NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(8) Pension Plan, continued

General Information About the Pension Plan, continued:

*Membership Contributions*

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

*Employer and Other Contributions*

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

*Actuarial Assumptions and Other Inputs*

The total pension liability was determined by an actuarial valuation as of October 1, 2019, rolled forward on year to September 30, 2020, 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, and price inflation
Municipal Bond Index Rate:	2.22%

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(8) Pension Plan, continued

General Information About the Pension Plan, continued:

*Actuarial Assumptions and Other Inputs, continued*

Year fiduciary net position is  
projected to be depleted: 2025

Price Inflation: 2.5% per year

Interest on Member  
Contribution: 5% per year

Salary Increase: 3% 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:	<u>Age</u>	<u>Disability</u>
	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.

Duty vs Non-Duty Related  
Disability: 100% duty related

Refund of Contributions: 80% terminated vested members elect a refund of contributions

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(8) Pension Plan, continued

General Information About the Pension Plan, continued:

*Actuarial Assumptions, continued*

*Investment Rate of Return*

The long-term expected rate of return on the Fund's investment of 6.74% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of September 30, 2020, the arithmetic real rates of return for each major investment class are as follows:

Assets Class	Target Allocation	Expected Rate of Return
US Large Cap Value Equity	10%	8.70%
US Large Cap Growth Equity	10%	9.13%
Mature Markets Non-U.S. Equity	15%	9.19%
Emerging Markets Non-U.S. Equity	10%	12.52%
U.S. Core Fixed Income	35%	3.82%
Global Fixed Income	10%	3.40%
Global REIT	10%	8.33%
	<u>100%</u>	

*Discount Rate*

The discount rate used to measure the total pension liability was 2.28% at the current measurement date and 2.85% 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 2025. For years on or after 2025, the Municipal Bond Index Rate a discount rate of 2.22% was used. The Municipal Bond Index Rate from the prior measurement date was 2.81%.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(8) Pension Plan, continued

General Information About the Pension Plan, continued:

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

The following schedule presents PNCC's proportionate share of the net pension liability as of September 30, 2020, calculated using the discount rate of 2.28%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (1.28%) or 1% higher (3.28%) from the current rate.

	1% Decrease in Discount Rate 1.28%	Current Discount Rate 2.28%	1% Increase in Discount Rate 3.28%
Net Pension Liability	\$ 15,941,916	\$ 13,660,411	\$ 11,778,598

*Deferred Outflows and Inflows of Resources*

At December 31, 2023 and 2022, PNCC reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 459,789	\$ 361,355	\$ 601,998	\$ 461,505
Net difference between projected and actual earnings				
on pension plan investments	25,523	17,486	32,922	28,100
Change in assumptions	2,931,314	858,672	2,456,732	1,079,198
PNCC contributions subsequent to the measurement date	-	-	-	-
Changes in proportion and difference between the Authority				
contribution and proportionate shares of contributions	1,270,243	93,892	1,192,813	207,091
Total	<u>\$ 4,686,869</u>	<u>\$ 1,331,405</u>	<u>\$ 4,284,465</u>	<u>\$ 1,775,894</u>

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(8) Pension Plan, continued

General Information About the Pension Plan, continued:

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2020 will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	
2021	\$ 679,190
2022	729,216
2023	601,222
2024	554,833
2025	603,529
Thereafter	<u>187,474</u>
	<u><u>\$3,355,464</u></u>

*Medical and Life Insurance Benefit*

In April 2010, the Republic of Palau (ROP) enacted RPPL 8-14 “*The National Healthcare Financing Act*”. The law requires each resident in the Republic of Palau to have coverage for healthcare costs. The law establishes a national Medical Savings Fund and a Health Insurance System in the ROP.

In October 2010, in compliance with the requirements of RPPL 8-14, PNCC began withholding from its employees 2.5% of gross earnings each pay period, with a matching employer share (a 5% combined contribution) for remittance to the ROP Social Security Administration that administers the Medical Savings Fund and Palau Health Insurance. For the years ended December 31, 2022, 2021 and 2020, PNCC’s employer’s share paid to the Social Security Administration for these costs was \$195,421, \$215,112 and \$203,655, respectively, and is included as a component of payroll burden in the Schedule of Functional Expenses.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(9) Grant Awards and Funding

*Grant Awards*

On June 16, 2023, PNCC received a grant award from the U.S. Trade and Development Agency (“USTDA”) in the amount of \$870,000 to fund the cost of services required in connection with the delivery of technical assistance related to the proposed implementation of the modernization and expansion of Palau’s mobile telecommunications network, and prepare for the rollout of 5G services. These funds were used to enter into a technical assistance consulting contract with Widelity, Inc. for the modernization project. During the December 2023, the original grant amount approved by USTDA to fund the technical assistance was increased by \$278,300 pursuant an Omnibus Amendment to fund additional scope of work services for the implementation for the project. As such, the USTDA grant amount totaled \$1,148,300 and no funds were received and expended as of December 31, 2023.

On October 10, 2023, PNCC was awarded a \$150,000 grant by the Information Society Innovation Fund (ISIF Asia) Foundation to enhance the reliability and stability of power backup systems for continuous mobile service. The grant also supports the development and testing of an innovative hybrid solution that integrates solar, wind turbine, generator, and battery backup technologies, with the potential for replication across all PNCC mobile network cell sites. As of December 31, 2023, PNCC has received and recognized \$75,000 of the grant as revenue.

In October 2022, PNCC was awarded a \$34,991,340 grant from the United States Department of Agriculture (USDA) under the ReConnect Loan and Grant Program. This USDA program provides financial support in the form of loans, grants, or loan/grant combinations for the construction, improvement, or acquisition of infrastructure and equipment necessary to deliver broadband services in eligible rural areas. The funding will be used to deploy fiber to all premises, from Kayangel to Angaur in Palau, significantly enhancing connectivity across the Republic of Palau. This fiber rollout will provide high-speed internet access to all residents and businesses, facilitating improved digital services and fostering economic growth. As of December 31, 2023, the project remains in the planning phase, and no funds have been received or expended.

(10) Commitments and Contingencies

*Commitments – Operating and Circuit Service Agreements*

The Company has a lease on a land easement agreement effective of May 21, 2019 and expiring May 20, 2024. The agreement calls for monthly payments of \$185. Rent under this lease is recognized at \$2,220 per year.

The Company has a lease on a land easement agreement effective of March 1, 2019 and expiring March 1, 2024. The agreement calls for monthly payments of \$700. Rent under this lease is recognized at \$8,400 per year.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(10) Commitments and Contingencies, continued

Commitments – Operating and Circuit Service Agreements, continued

Contingencies

The Company has a lease on a land easement agreement effective of March 1, 2019 and expiring March 1, 2024. The agreement calls for monthly payments of \$700. Rent under this lease is recognized at \$8,400 per year.

The Company has a lease on a land easement agreement effective of August 8, 2019 and expiring August 7, 2027. The agreement calls for monthly payments of \$1,000. Rent under this lease is recognized at \$12,000 per year.

The Company entered into a five-year network equipment maintenance agreement effective March 1, 2019 and expiring March 1, 2024. The agreement calls for annual commitments of \$2,980.

The Company entered into a three-year broadcast connectivity agreement effective October 14, 2019 and expiring October 14, 2022. The agreement calls for quarterly payments of \$540. The service fee is recognized at \$2,160 per year.

The Company entered into a three-year broadcast connectivity agreement effective December 12, 2019 and expiring December 11, 2022. The agreement calls for monthly payments of \$287. The service fee is recognized at \$3,444 per year.

Future minimum lease and service payments are as follows:

2024	\$ 30,100
2025	12,000
2026	12,000
2027	<u>8,000</u>
	<u>\$ 62,100</u>

*Risk Management*

PNCC is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters, employee health, dental and accident benefits. PNCC has elected to purchase commercial insurance coverage for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the past three years. PNCC is self-insured for buried cables and customer premises wirings.

Claims expenditures and liabilities will be reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.



**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(10) Commitments and Contingencies, continued

Contingencies

*Risk Management, continued*

Losses, if reported, would include an estimate of claims that have been incurred but not reported. No losses as a result of these risks have occurred or have been reported within the last three years.

*Claims and Litigation*

In the normal course of business, PNCC is involved in various claims and litigation or has received several claims that are pending review or are expected to go to litigation. Management believes that any liability it may incur would not have a material adverse effect on its financial condition or its results of operations.

*Health (Sick) Leave*

PNCC's policy is to record expenditures for health (sick) leave when the leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at December 31, 2023 and 2022 was \$1,016,801 and \$1,113,801, respectively.

(11) 401(k) Profit Sharing Plan

PNCC has adopted a retirement plan (a "401(k) plan") which covers substantially all employees meeting certain eligibility requirements. Participants may contribute a portion of their pretax income into a retirement fund. At the Company's discretion, participants' contributions are matched up to 5% by the Company. For the years ended December 31, 2023 and 2022, the Company's discretionary profit-sharing contribution were \$56,428 and \$48,472, respectively. The contributions are recorded as a component of plant specific operations expenses reported in the Statement of Revenues, Expenses and Changes in net position.

(12) Fair Value of Financial Instruments

PNCC's financial instruments are cash and cash equivalents, accounts receivable, other assets, investments, accounts payable, payable to carriers, accrued expenses, unearned revenue, customer deposits, notes payable, and long-term debt. The recorded values of these instruments for cash and cash equivalents, accounts receivable, other assets, investments and accounts payable, payable to carriers, accrued expenses, unearned revenues, and the current portion of long-term debt approximate their fair values based on their short-term nature. The recorded value of customer deposits approximates its fair value as the amount payable on demand at the reporting date. The recorded value of RUS note payable approximates its fair value, as interest approximates market rates.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements  
December 31, 2023 and 2022

(13) Reclassifications

Certain amounts presented in 2022 have been reclassified to conform to the 2023 financial statement presentation. These reclassifications did not affect the change in net position or the total net position.

(14) COVID-19

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S and throughout Micronesia. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. Future potential impacts may include disruptions on the Company's employees' ability to work or the customers' ability to pay monthly services. Changes to the operating environment may increase operating costs. Additional impacts may include the ability of customers to continue making payments as a result of job loss or other pandemic related issues. The future effects of these issues are unknown.

(15) Subsequent Event

In preparing the accompanying financial statements and notes, management has evaluated subsequent events through September 12, 2024, which is the date the financial statements were available to be issued. There were no such events requiring disclosure.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
**(A Component Unit of the Republic of Palau)**

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**SUPPLEMENTARY SCHEDULES**

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**Year Ended December 31, 2023**

**PALAU NATIONAL COMMUNICATIONS CORPORATION**

(A Component Unit of the Republic of Palau)

Supplementary Information  
Schedule of Budget vs Actual (GAAP Basis)  
For the Year Ended December 31, 2023

	Budget				Variance Favorable (Unfavorable)
	Original	Revisions	Final	Actual	
Operating revenues:					
Cellular	\$ 6,460,628	\$ -	\$ 6,460,628	\$ 5,232,550	\$ (1,228,078)
Palaunet	3,483,015	-	3,483,015	2,939,698	(543,317)
Digital television	2,330,176	-	2,330,176	681,718	(1,648,458)
Local	991,392	-	991,392	1,875,563	884,171
Long distance	(110,903)	-	(110,903)	(43,228)	67,675
Miscellaneous	250,000	-	250,000	181,716	(68,284)
Total operating revenues	<u>13,404,308</u>	<u>-</u>	<u>13,404,308</u>	<u>10,868,017</u>	<u>(2,536,291)</u>
Operating expenses:					
Plant specific operations	6,084,758	-	6,084,758	6,063,015	21,743
Depreciation	2,497,557	-	2,497,557	2,761,084	(263,527)
Customer service operations	2,248,203	-	2,248,203	1,084,886	1,163,317
Corporate operations	1,334,231	-	1,334,231	2,354,193	(1,019,962)
Plant non-specific operations	681,535	-	681,535	441,199	240,336
Total operating expenses	<u>12,846,284</u>	<u>-</u>	<u>12,846,284</u>	<u>12,704,377</u>	<u>141,907</u>
Operating income	<u>558,024</u>	<u>-</u>	<u>558,024</u>	<u>(1,836,360)</u>	<u>(2,394,384)</u>
Non-operating income (expenses):					
Interest expense	(761,026)	-	(761,026)	(464,454)	296,572
Unrealized gain loss) on investment	428,682	-	428,682	63,254	(365,428)
Realized gain on investments	9,188	-	9,188	9,951	763
Grant revenue	-	-	-	75,000	75,000
Other income (expense), net	(207,429)	-	(207,429)	163,783	371,212
Total nonoperating expenses, net	<u>(530,585)</u>	<u>-</u>	<u>(530,585)</u>	<u>(152,466)</u>	<u>378,119</u>
Change in net position	<u>\$ 27,439</u>	<u>\$ -</u>	<u>\$ 27,439</u>	<u>\$ (1,988,826)</u>	<u>\$ (2,016,265)</u>

See accompanying independent auditor's report.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**

(A Component Unit of the Republic of Palau)

Supplementary Schedule of Functional Expenses  
For The Year Ended December 31, 2023  
(With Comparative Totals for 2022)

	Plant Specific					Plant	Total	
	Depreciation	Operations	Corporate	Customer Relations	Total	Non-Specific Operations	Operating Expenses 2023	2022
Outside services	\$ -	\$ 3,725,313	\$ 230,329	\$ 539,351	\$ 4,494,992	\$ 2,954	\$ 4,497,946	\$ 4,530,572
Depreciation	2,639,826	-	-	-	2,639,826	-	2,639,826	2,888,457
Lease amortization	121,258	-	-	-	121,258	-	121,258	121,258
Others	-	35,813	317,297	47,874	400,985	74,431	475,416	385,101
Salaries and wages	-	840,279	858,075	326,222	2,024,575	227,689	2,252,264	3,452,606
Utilities	-	775,757	-	-	775,757	-	775,757	902,736
Materials and supplies	-	186,782	1,368	1,796	189,946	27,238	217,184	140,722
Bad debts	-	-	137,649	-	137,649	-	137,649	-
Gross revenue taxes	-	-	22,485	-	22,485	-	22,485	373,576
Clearance	-	27,822	-	-	27,822	-	27,822	7,248
Insurance	-	-	128,264	-	128,264	-	128,264	122,878
Legal fees	-	-	48,934	-	48,934	-	48,934	46,468
Fuel	-	20,510	17,284	4,068	41,862	19,872	61,734	73,234
Training	-	4,237	159,188	357	163,782	22,604	186,386	75,197
Office supplies	-	1,578	29,095	5,956	36,629	6,234	42,863	38,722
Postage	-	-	27,931	-	27,931	-	27,931	21,672
Payroll burden	-	444,924	368,494	159,263	972,681	60,178	1,032,859	176,556
Board fees	-	-	7,800	-	7,800	-	7,800	11,500
Rent	-	-	-	-	-	-	-	-
Allocation	-	-	-	-	-	-	-	-
	<u>\$ 2,761,084</u>	<u>\$ 6,063,015</u>	<u>\$ 2,354,193</u>	<u>\$ 1,084,886</u>	<u>\$ 12,263,178</u>	<u>\$ 441,199</u>	<u>\$ 12,704,377</u>	<u>\$ 13,368,503</u>

See accompanying independent auditor's report.

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
(A Component Unit of the Republic of Palau)

Supplementary Schedule of Functional Expenses by Division  
For The Year Ended December 31, 2023  
(With Comparative Totals for 2022)

					Total Operating Expenses By Division	
	Depreciation	Operations	Corporate	Customer Relations	2023	2022
<b>Telephony:</b>						
Outside services	\$ -	\$ 382,821	\$ 230,329	\$ 115,256	\$ 728,406	\$ 3,225,176
Depreciation	1,275,275	-	-	-	1,275,275	1,651,274
Lease amortization	121,258	-	-	-	121,258	121,258
Salaries and wages	-	339,002	858,075	326,059	1,523,136	2,302,267
Others	-	11,581	317,297	5,874	334,752	249,990
Utilities	-	775,757	-	-	775,757	902,736
Bad debts	-	-	137,649	-	137,649	-
Business gross revenue tax	-	-	22,485	-	22,485	373,576
Materials and supplies	-	121,374	1,368	1,796	124,538	85,873
Clearance	-	9,146	-	-	9,146	4,519
Insurance	-	-	128,264	-	128,264	122,878
Legal fees	-	-	48,934	-	48,934	46,468
Fuel	-	13,173	17,284	4,068	34,525	37,945
Office supplies	-	1,143	29,095	5,956	36,194	36,793
Postage	-	-	27,931	-	27,931	21,672
Training	-	1,890	159,188	357	161,435	74,767
Board fees	-	-	7,800	-	7,800	11,500
Payroll burden	-	177,306	368,494	159,263	705,063	76,732
Allocation	-	-	-	-	-	-
	<u>1,396,533</u>	<u>1,833,193</u>	<u>2,354,193</u>	<u>618,629</u>	<u>6,202,548</u>	<u>9,345,424</u>
<b>Cellular:</b>						
Depreciation	991,217	-	-	-	991,217	875,251
Outside services	-	51,240	-	-	51,240	1,335
Others	-	21,220	-	42,000	63,220	60,422
Materials and supplies	-	2,536	-	-	2,536	1,277
Training	-	500	-	-	500	-
Salaries and wages	-	72,056	-	-	72,056	91,646
Payroll burden	-	37,714	-	-	37,714	-
Allocation	-	-	-	-	-	-
	<u>991,217</u>	<u>185,267</u>	<u>-</u>	<u>42,000</u>	<u>1,218,484</u>	<u>1,029,931</u>
<b>Palaunet:</b>						
Outside services	-	3,280,488	-	-	3,280,488	843,465
Others	-	2,105	-	-	2,105	17,928
Depreciation	173,947	-	-	-	173,947	182,707
Training	-	205	-	-	205	60
Materials and supplies	-	208	-	-	208	188
Salaries and wages	-	177,471	-	-	177,471	208,400
Payroll burden	-	108,420	-	-	108,420	92,153
Clearance	-	632	-	-	632	604
Fuel	-	17	-	-	17	-
Allocation	-	-	-	-	-	-
	<u>173,947</u>	<u>3,569,546</u>	<u>-</u>	<u>-</u>	<u>3,743,493</u>	<u>1,345,503</u>
<b>Digital TV:</b>						
Outside services	-	10,763	-	424,095	434,857	452,706
Materials and supplies	-	62,664	-	-	62,664	37,227
Depreciation	199,387	-	-	-	199,387	179,225
Others	-	907	-	-	907	6,716
Fuel	-	7,320	-	-	7,320	10,665
Training	-	1,642	-	-	1,642	130
Office supplies	-	435	-	-	435	-
Clearance	-	18,044	-	-	18,044	2,004
Salaries and wages	-	251,750	-	162	251,912	485,423
Payroll burden	-	121,484	-	-	121,484	(24)
Allocation	-	-	-	-	-	-
	<u>199,387</u>	<u>475,009</u>	<u>-</u>	<u>424,257</u>	<u>1,098,653</u>	<u>1,174,072</u>
	<u>\$ 2,761,084</u>	<u>\$ 6,063,015</u>	<u>\$ 2,354,193</u>	<u>\$ 1,084,886</u>	<u>\$ 12,263,177</u>	<u>\$ 12,894,931</u>

See accompanying independent auditor's report.

**Palau National Communications Corporation**  
(A Component Unit of the Republic of Palau)

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

	2020	2019	2018	2017	2016	2015	2014
Civil Service Pension Trust Fund (Plan) total net pension liability	\$ 344,384,167	\$ 308,480,463	\$ 250,868,784	\$ 259,395,005	\$ 249,453,960	\$ 215,546,176	\$ 204,281,232
PNCC proportionate share of the net pension liability	\$ 13,660,411	\$ 11,837,827	\$ 8,712,379	\$ 8,539,634	\$ 7,980,506	\$ 7,015,927	\$ 7,163,121
PNCC proportionate share of the net pension liability	3.967%	3.837%	3.473%	3.292%	3.199%	3.255%	3.506%
PNCC's covered-employee payroll**	\$ 2,432,700	\$ 2,293,283	\$ 2,037,433	\$ 1,907,250	\$ 1,694,398	\$ 1,578,557	\$ 1,648,460
PNCC's proportionate share of the net pension liability as a percentage of its covered employee payroll	561.53%	516.20%	427.62%	447.75%	470.99%	444.45%	434.53%
Plan Fiduciary net position as a percentage of the total pension liability	8.42%	8.26%	10.24%	10.18%	10.55%	11.54%	14.01%

\* This data is presented for those years for which information is available.

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

See accompanying independent auditor's report.

**Palau National Communications Corporation**  
(A Component Unit of the Republic of Palau)

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 624,933	\$ 540,730	\$ 601,245	\$ 565,547	\$ 461,242	\$ 354,787	\$ 372,513
Contribution in relation to the actuarially determined contribution	<u>145,962</u>	<u>137,597</u>	<u>122,246</u>	<u>114,435</u>	<u>100,271</u>	<u>94,083</u>	<u>97,071</u>
Contribution (excess) deficiency	<u>\$ 478,971</u>	<u>\$ 403,133</u>	<u>\$ 478,999</u>	<u>\$ 451,112</u>	<u>\$ 360,971</u>	<u>\$ 260,704</u>	<u>\$ 275,442</u>
PNCC's covered-employee payroll**	<u>\$ 2,432,700</u>	<u>\$ 2,293,283</u>	<u>\$ 2,037,433</u>	<u>\$ 1,907,250</u>	<u>\$ 1,694,398</u>	<u>\$ 1,578,557</u>	<u>\$ 1,648,460</u>
PNCC's proportionate share of the net pension liability	6.00%	6.00%	6.00%	6.00%	5.92%	5.96%	5.89%

\* This data is presented for those years for which information is available.

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

See accompanying independent auditor's report.



**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
**(A Component Unit of the Republic of Palau)**

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**INDEPENDENT AUDITORS' REPORT ON**  
**INTERNAL CONTROL AND ON COMPLIANCE**

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**Year Ended September 30, 2023**



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

Board of Directors  
Palau National Communications 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 Palau National Communications Corporation (PNCC), 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 the statement of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 12, 2024.

**Report on Internal Control over Financial Reporting**

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

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

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

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether PNCC'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.



Koror, Republic of Palau  
September 12, 2024

(A Component Unit of the Republic of Palau)

## Schedule of Findings and Responses

### Year Ended December 31, 2023

## **SECTION I – SUMMARY OF AUDITORS’ RESULTS**

## Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_yes        X  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_yes        X  no
- Noncompliance material to financial statements? \_\_\_\_\_yes        X  no

**PALAU NATIONAL COMMUNICATIONS CORPORATION**  
**(A Component Unit of the Republic of Palau)**

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**Independent Auditor's Report on Compliance with  
Aspects of Contractual Agreements and Regulatory  
Requirements for Telecommunications Borrowers**

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**Year Ended December 31, 2023**



**BURGER · COMER · MAGLIARI**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH**  
**ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY**  
**REQUIREMENTS FOR TELECOMMUNICATIONS BORROWERS**

To the Board of Directors  
Palau National Communications Corporation:

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Palau National Communications Corporation (PNCC), a component unit of the Republic of Palau, which comprise the statement of net position as of December 31, 2023, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 12, 2024. In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2024, on our consideration of PNCC's internal control over financial reporting on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred above and our separate letter regarding recommendations concerning certain matters related to internal control, also dated September 12, 2024 related to our audit, have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that PNCC failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Awardees, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding PNCC's noncompliance with above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, as except of the comments noted below, we noted no matters regarding PNCC's accounting and records to indicate that PNCC did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

- 64 -

- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system in the contract that covers all or substantially all of the telecommunication system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in accordance with generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements addressed in 7 CFR Part 1733.33(g); and
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. At December 31, 2023, PNCC had no investments in subsidiary and affiliated companies that needed to be accounted for on either the cost or equity basis in accordance with the requirement of 7 CFR Part 1733.33(i).

\* \* \* \* \*

This report is intended solely for the information and use of the management of PNCC, the Board of Directors and the Rural Utilities Service and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Buqa Comer Magliai*

Koror, Republic of Palau  
September 12, 2024