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

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Public Utilities Corporation:

Report on Financial Statements

We have audited the accompanying financial statements of the Palau Public Utilities Corporation (PPUC), a component unit of the Republic of Palau, which comprise the statements of net position as of September 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Deloitte.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palau Public Utilities Corporation as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 29 as well as the Schedule of Proportional Share of the Net Pension Liability on page 53 and the Schedule of Pension Contributions on page 54 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Statement of Net Position, Combining Statement of Revenues, Expenses and Changes in Net Position, Combining Statement of Cash Flows, and Schedule of Revenues and Expenses as of and for the year ended September 30, 2018 on pages 55 through 58 are presented for purposes of additional analysis and are not a required part of the financial statements.

The Combining Statement of Net Position, Combining Statement of Revenues, Expenses and Changes in Net Position, Combining Statement of Cash Flows, and Schedule of Revenues and Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Net Position, Combining Statement of Revenues, Expenses and Changes in Net Position, Combining Statement of Cash Flows, and Schedule of Revenues and Expenses are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2019, on our consideration of PPUC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PPUC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PPUC's internal control over financial reporting and compliance.

Deloitte & Touche LLP

May 17, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) presents the Palau Public Utilities Corporation's financial performance during the fiscal year ended September 30, 2018. The discussion and analysis provides users with detailed and comparative information enabling them to assess the individual performance of both Electric Power Operations (EPO) and Water & Wastewater Operations (WWO) and appreciate the change in financial position and critical financial indicators as a result of the current year's operations. This analysis is to be read in conjunction with the audited financial statements as of and for the year ended September 30, 2018, which follow this section.

In preparing this MD&A, forward-looking remarks about operational and/or financial matters may be used. Such remarks are usually identified by words such as "expected", "could", "possible" etc. Matters discussed in the context of these remarks are subject to risks and change. The reader should not assume such remarks constitute guarantees.

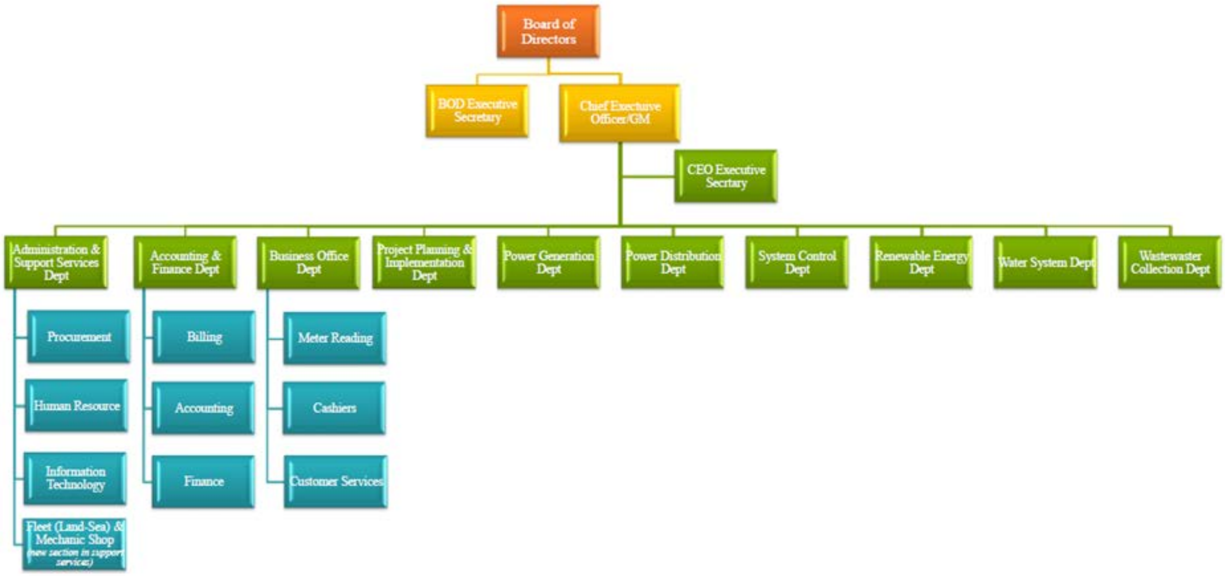
COMPANY OVERVIEW

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

After the merger, about 112 employees from the National Government's water and waste water operation transitioned to the new PPUC. From an Electrical utility with 149 employees, PPUC expanded to a total workforce of over 250 employees, delivering both electricity and water/waste water operations to the entire Republic of Palau.

Water and Waste Water operations are treated as a separate business segment from the Electric operations, and has its own organizational chart delineating a chain of management that is separate from the electrical operations. Shared administrative and management costs and expertise are allocated equitably between the two separate business segments and in no way are utilized to subsidize or otherwise intermingle the finances of each other.

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



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

FINANCIAL STATEMENTS

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

The Statement of Net Position includes all PPUC's investments in resources and the obligations to creditors. The information from this statement is used as the basis for computing investment rate of return, for assessing the liquidity and financial flexibility of the Corporation, as well as for evaluating the corporate capital structure. The Statement of Revenues, Expenses, and Changes in Net Position contains all of the current (2018) fiscal year's revenues and expenses; measures the success of the Corporation's operations compared to the prior fiscal year; and shows the extent to which PPUC successfully recovered costs through tariffs and other charges. External grant donors and financial institutions review this statement to determine the financial performance of the Corporation. The Statement of Cash Flows provides information on corporate cash inflows and outflows, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities. The Statement provides insight into aspects of cash management, including the sources and uses of cash, and the net change in cash balance during the fiscal year.

EPO Financial Highlights

The table below shows the financial performance of Electrical Operations for the years 2016, 2017 and 2018.

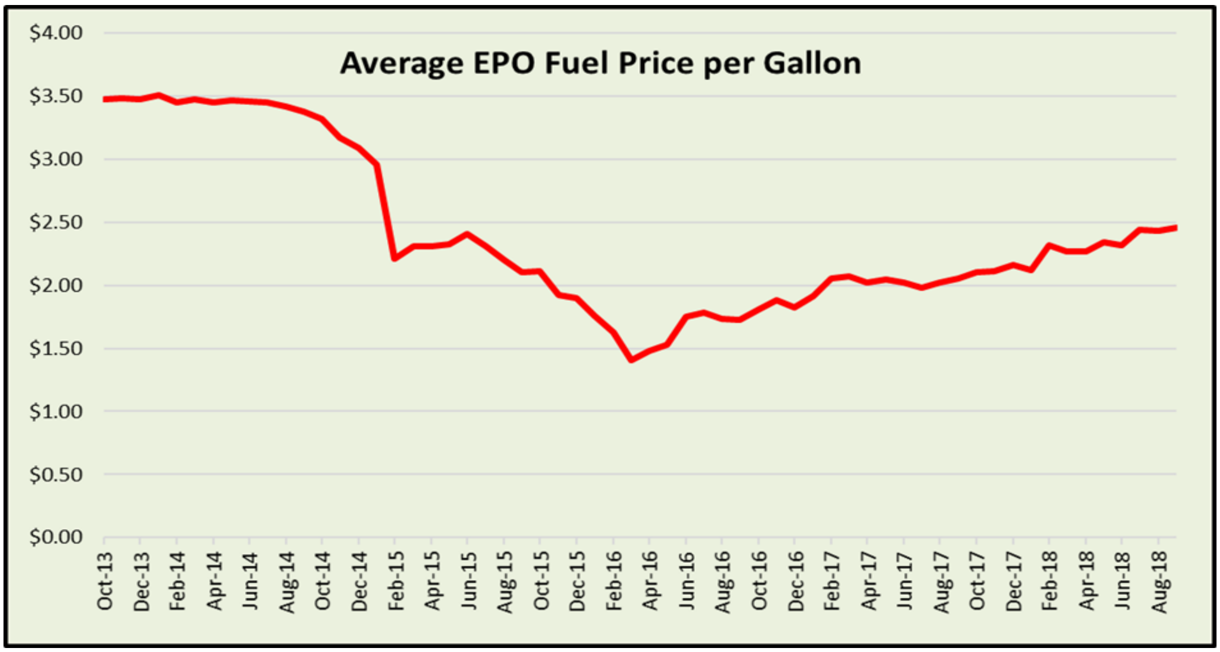
Table 1.1

(Dollars in Thousands)

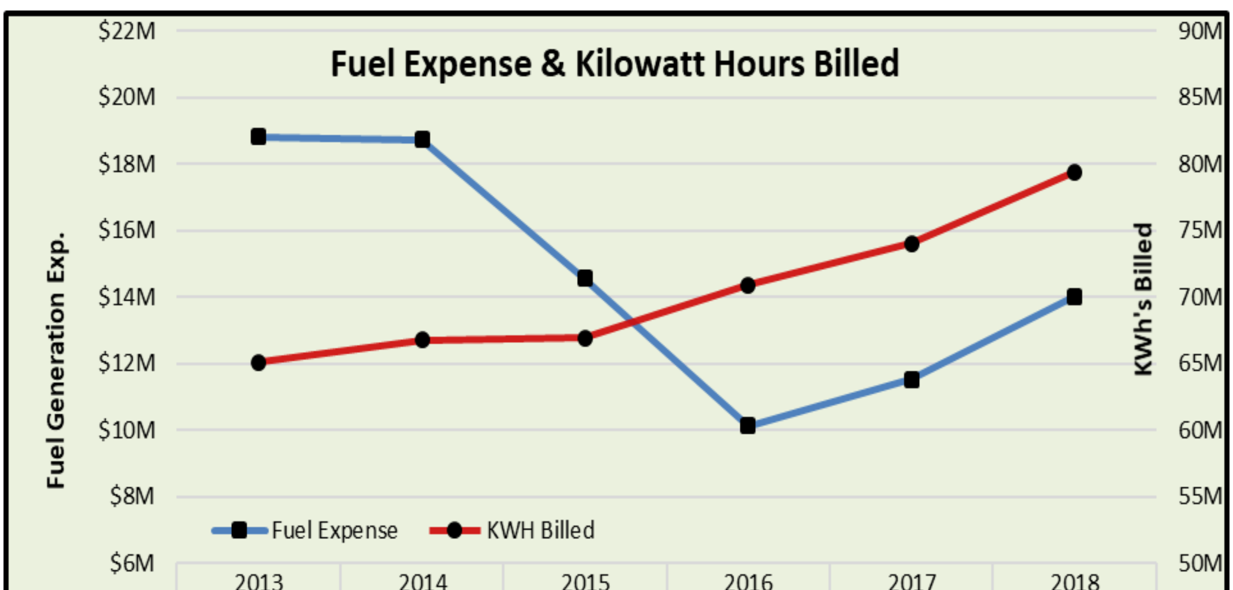
Electric Power Operations	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2016	Incr (Decr) 2018	Incr (Decr) 2017
Revenues, Expenses, and Changes in Net Position					
Operating Revenues;					
- Electric	$ 22,113	$ 19,523	$ 19,807	$ 2,590	$ (284)
- Others	$ 1,101	$ 999	$ 908	$ 102	$ 91
- Prov'n for Bad Debt	$ (119)	$ (124)	$ (73)	$ 5	$ (51)
Non-operating Rev(Exp)	$ (267)	$ (450)	$ 1,012	$ 183	$ (1,462)
Total Revenue	**$ 22,828**	**$ 19,948**	**$ 21,654**	**$ 2,880**	**$ (1,706)**
Operating Expenses					
- Generation Fuel	$ 14,026	$ 11,521	$ 10,135	$ 2,505	$ 1,386
- Generation Other Costs	$ 3,629	$ 3,807	$ 2,436	$ (178)	$ 1,371
- Depreciation	$ 2,976	$ 2,727	$ 2,672	$ 249	$ 55
- Administration	$ 1,805	$ 1,003	$ 973	$ 802	$ 30
- Dist'n & Transmission	$ 1,590	$ 1,379	$ 1,251	$ 211	$ 128
- Engineering	$ 770	$ 537	$ 335	$ 233	$ 202
- Renewable Energy	$ 232	$ 244	$ 538	$ (12)	$ (294)
Total Operating Expenses	**$ 25,028**	**$ 21,218**	**$ 18,340**	**$ 3,810**	**$ 2,878**
Capital Contributions	$ 65	$ 130	$ 92	$ (65)	$ 38
Change in Net Position	$ (2,135)	$ (1,139)	$ 3,407	$ (996)	$ (4,546)
Beginning Net Position	$ 38,233	$ 39,373	$ 35,966	$ (1,140)	$ 3,407
Ending Net Position	**$ 36,098**	**$ 38,233**	**$ 39,373**	**$ (2,135)**	**$ (1,140)**

The increase in operating revenue was largely due to an increase in tariff revenue of $2.59 million. This increase arose from a combination of an increase in fuel prices and an increase in kilowatt hours (kWh) billed. Chart 1.1 below shows the change in fuel prices that has occurred since 2013. Chart 1.2 shows the corresponding change in fuel expenses and the increase in kilowatt hours billed.

<u>Chart 1.1</u>



<u>Chart 1.2</u>



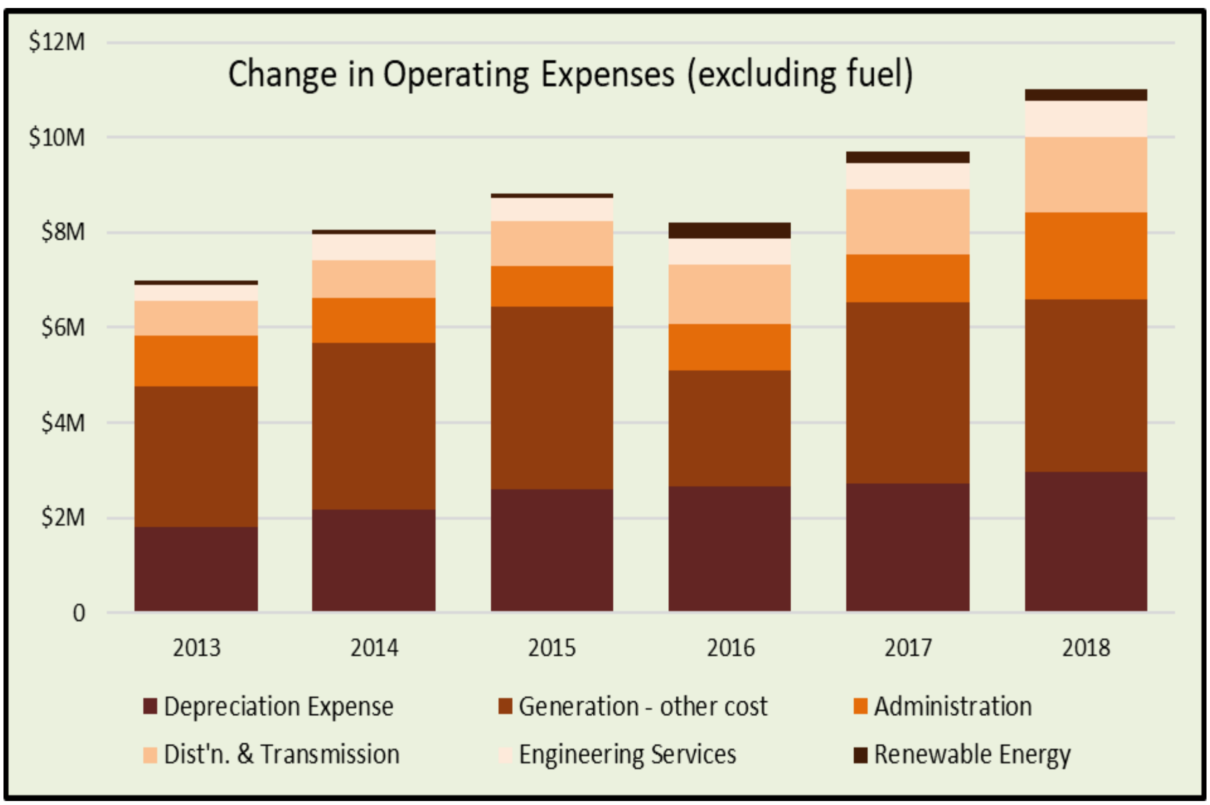
	2013	2014	2015	2016	2017	2018
Fuel Expense	$18,828,586	$18,732,306	$14,555,200	$10,134,675	$11,520,541	$14,025,809
KWH Billed	65,093,378	66,776,129	66,923,616	70,928,766	74,032,703	79,429,455

Chart 1.2 shows both the change in fuel expenses and the change in kilowatt hours billed since 2013. It is evident that fuel expenses fell from 2013 to 2016, then commenced to climb in 2016 and that increase continued through 2018, reflecting the increase in fuel prices shown in Chart 1.1. Since 2015, in particular, kilowatt hours billed have increased rapidly, in part reflecting a substantial increase in demand from completed hotel construction and commercial activities in recent years.

A continuing increase in kilowatt hours billed is critical to the success of the Corporation, as the marginal cost of the increase in kilowatt hours billed is expected to be less than the marginal revenue generated. This growth has enabled the Corporation to improve its operating performance while holding the fixed element of the tariff constant since 2012. This particular issue is considered in further detail later in this analysis.

Operating Expenses increased by approximately $3.8 million from 2017 to 2018. A large portion of this increase was due to an increase in fuel expenses of $2.5 million, as shown in Chart 1.2. Other major increases are due to; Depreciation, which has increased by $249k as a result of greater investment in capital assets; and Administration, which has increased by $802k, largely due to a one-off change in the allocation of administrative costs between EPO and WWO operations to better reflect internal costs in the allocation. These increases are shown in chart 1.3.

Chart 1.3



The following table shows the assets, liabilities, and the change in net position of the electrical operation for the past three fiscal years ended September 30, 2016 through September 30, 2018.

Table 1.2

(Dollars in Thousands)

Electric Power Operations	**Sept. 30, 2018**	**Sept. 30, 2017**	**Sept. 30, 2016**	**Incr (Decr) 2018**	**Incr (Decr) 2017**
Statement of Net Position					
Current Assets	$ 21,555	$ 22,118	$ 23,661	$ (563)	$ (1,543)
Other Assets	$ 177	$ 188	$ 195	$ (11)	$ (7)
Net Utility Plant	$ 34,861	$ 36,295	$ 35,882	$ (1,434)	$ 413
Total Assets	$ 56,593	$ 58,601	$ 59,738	$ (2,008)	$ (1,137)
Deferred Outflows from Pension	$ 3,388	$ 1,585	$ 843	$ 1,803	$ 742
	$ 59,981	**$ 60,186**	**$ 60,581**	**$ (205)**	**$ (395)**
Current Liabilities	$ 7,051	$ 6,708	$ 6,319	$ 343	$ 389
Other Liabilities	$ 4,536	$ 5,277	$ 5,862	$ (741)	$ (585)
Net Pension Liability	$ 10,665	$ 9,011	$ 7,915	$ 1,654	$ 1,096
Total Liabilities	$ 22,252	$ 20,996	$ 20,096	$ 1,256	$ 900
Deferred Inflows from Pension	$ 1,631	$ 957	$ 1,112	$ 674	$ (155)
	$ 23,883	**$ 21,953**	**$ 21,208**	**$ 1,930**	**$ 745**
Invested in Capital Assets	$ 31,483	$ 32,409	$ 31,632	$ (926)	$ 777
Unrestricted	$ 4,615	$ 5,824	$ 7,741	$ (1,209)	$ (1,917)
Total Net Position	**$ 36,098**	**$ 38,233**	**$ 39,373**	**$ (2,135)**	**$ (1,140)**

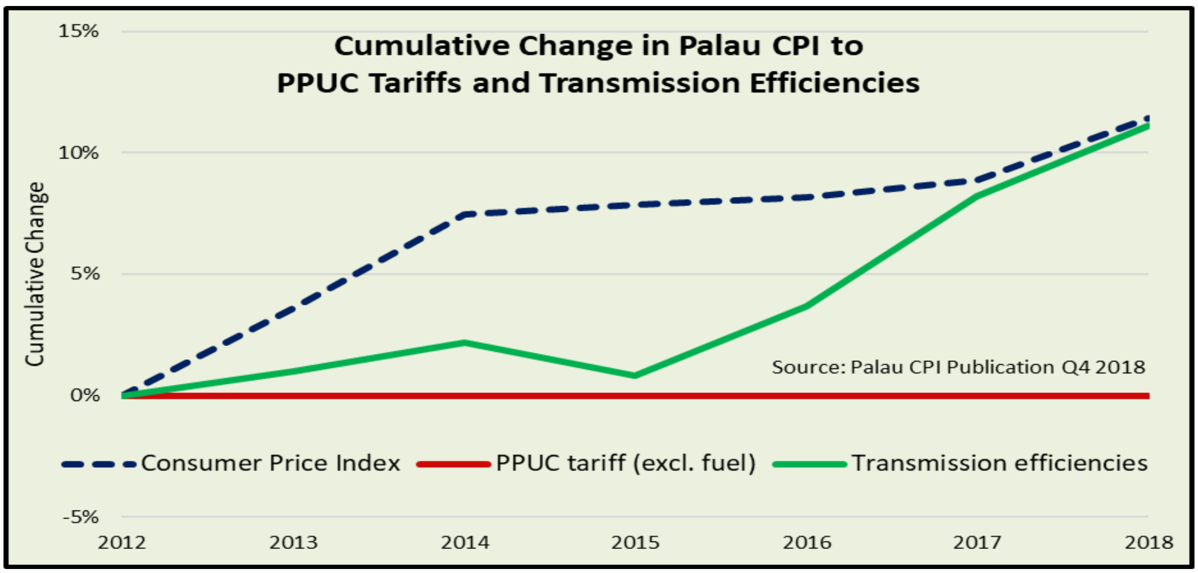
Total assets exceeded total liabilities by $36.1 million in 2018; $38.2 million in 2017; and $39.4 million in 2016, as at September 30 of each year. The reduction generally reflects the impact of operating losses on the financial position of this segment of the Corporation.

Total assets have diminished only marginally, from $60.2 million in 2017 to $60.0 million in 2018. The Net Pension Liability (the amount the Corporation is currently liable for in respect of future pension entitlements) has increased, due to changes in staffing and in governing pension legislation. Investments in capital assets has reduced by $926k, representing a change in the mix of assets and the impact of increasing depreciation.

Electric Power Operations Analysis

Under increasing cost pressures, the Corporation has held kilowatt hour prices constant since 2012, excluding the fuel component which should be adjusted quarterly to respond to changes in the cost of imported fuel. Chart 1.4 below shows the change in Palau CPI (Consumer Price Index), which measures the annual increase in prices of general goods and services in the economy (dotted line), against the fixed tariff rate (red line). The chart clearly demonstrates how the strategy adopted by the Corporation has resulted in tariff rates that are now almost 12% lower than they would be had the Corporation increased tariffs in line with increases in the cost of general goods and services.

Chart 1.4



The Corporation has largely achieved this by continuing to deliver efficiencies in electricity transmission. The **green line** in the chart demonstrates that power transmission efficiencies have largely enabled the tariffs to be held constant. The Corporation has achieved significant reductions in the amount of power 'lost' between generation and kWh billed. These losses occur from a variety of factors, some caused by infrastructure that is not efficient in transmission, and some from other factors such as illegal or unmetered connections. As fuels costs represent almost three-quarters of all EPO expenses, reductions in energy losses represent significant savings. By continuing to address these factors, the Corporation has achieved significant transmission efficiencies, which has largely offset the cost impact of holding this tariff component constant. This achievement in tariff price constraint is significant, given the rise in input costs and wages growth over these years.

Chart 1.5 shows the volume of kilowatt hours billed, as a percentage of kilowatt hours generated. As evidenced in the chart, the percentage billed has increased from 80% in October 2012 to 85% by September 2018. This is a creditable achievement, and the Corporation intends to continue to focus on reducing transmission losses, with the objective of achieving industry benchmarks of around 88-89% (e.g.; a 11-12% loss) over the coming 3 to 5 years period. It must be appreciated that as the easiest efficiencies have already been achieved, future efficiencies will not be as substantial, and are likely to follow a pattern of diminishing returns.

Chart 1.5

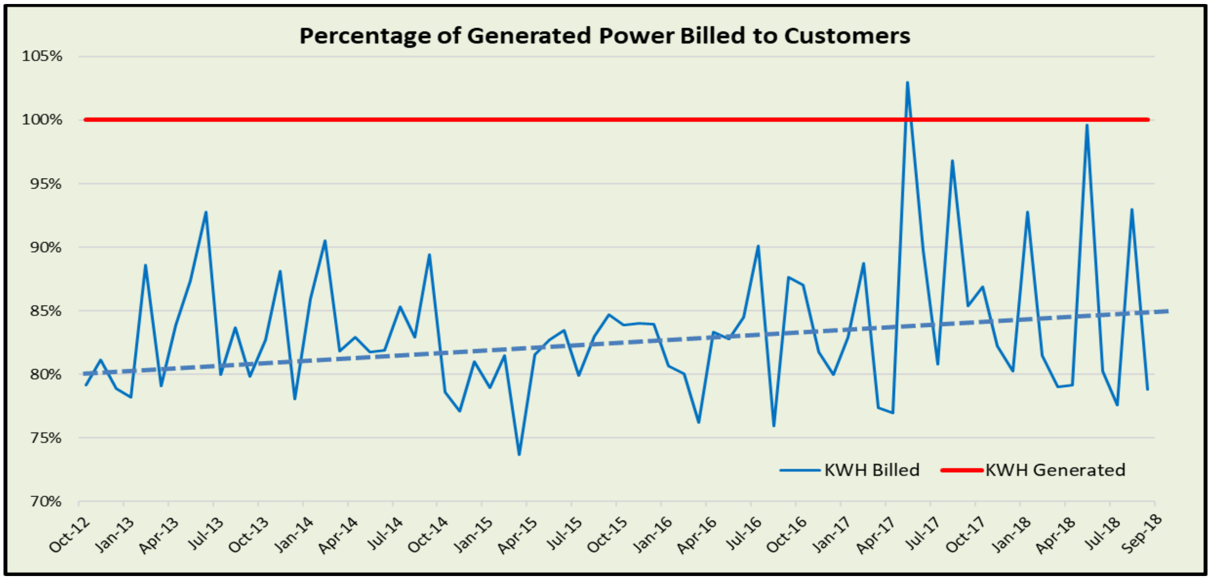
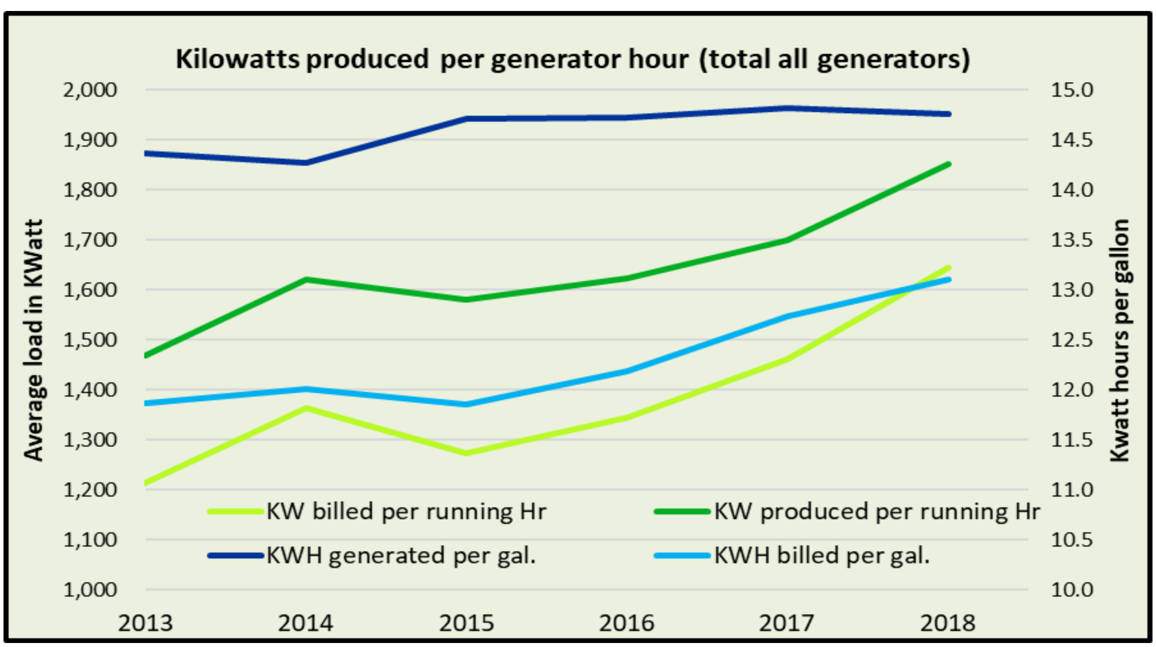


Chart 1.6 provides some further insight into power generation and transmission efficiencies. The blue shaded lines show the Kilowatt hours generated and billed per gallon of fuel consumed by all generators in total. While the light blue line (kilowatt hours billed per gallon) has been increasing as a result of transmission efficiencies, the dark blue line (kilowatt hours generated per gallon) has also been increasing, albeit at a slower rate. This indicates that the usage of the generators by the Corporation is becoming more efficient, i.e.; generators are being run less hours in order to produce the same volume of kilowatt hours. This is indicative of previous comments in this analysis proposing that as the volume of kilowatt hours billed increases, the Corporation will benefit through marginal cost efficiencies from power generation and transmission.

Chart 1.6



The charts below show the actual volume of kilowatt hours generated and billed from 2013-2018 on an annual basis (Chart 1.7) and the annual change for each year (Chart 1.8). The charts also show the forecast levels for 2019, based on forecast demand. Chart 1.7 shows the shrinking gap between kilowatt hours generated and billed, evidencing the reduction in kilowatt hours lost in transmission. Both charts show how kilowatt hours billed has been increasing at a greater rate than kilowatt hours generated, confirming the trend in reduction of transmission losses.

Chart 1.7

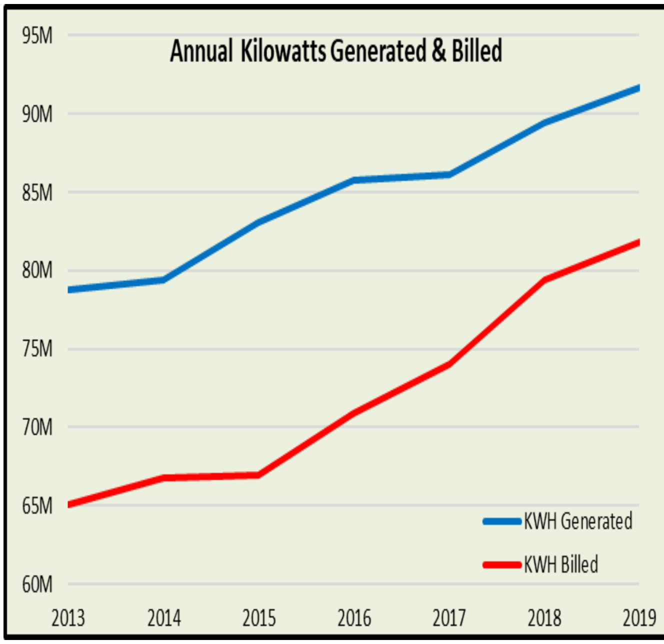
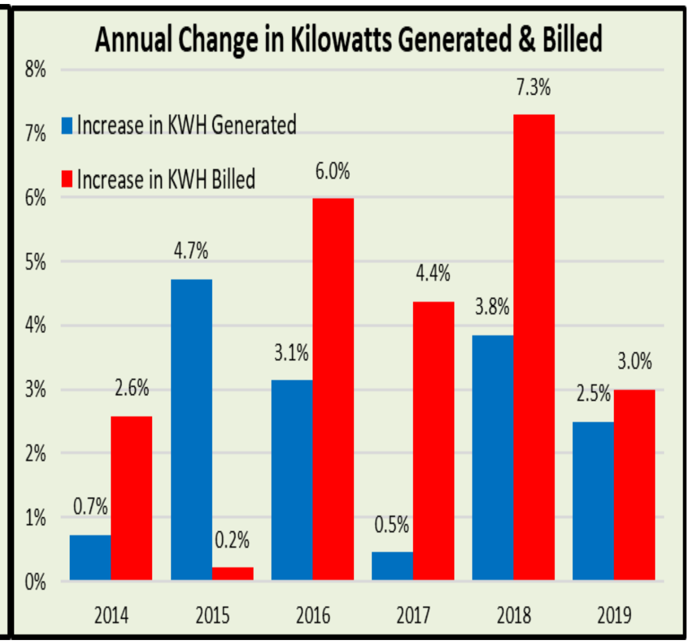


Chart 1.8



Revenue growth from power consumption by customers is anticipated to be 3% for the year 2019, reflecting a slight reduction in growth after substantial increases in recent years, which has followed a spike in commercial developments, particularly hotels. Suprima (pre-paid meter) customers continue to increase as a share of total consumption, indicating the success of the initiative by the Corporation to provide customers with greater ability to manage and control their power consumption and power costs, and avoid the potential of costly and disruptive service disconnections.

Chart 1.9 overleaf confirms this increase, showing the share of each customer type as a percentage of the total kilowatt hours billed. Chart 1.10 shows the volume of kilowatt hours billed to each customer type, and even more clearly demonstrates the significance of the increase in Suprima in comparison to other customer types.

Chart 1.9

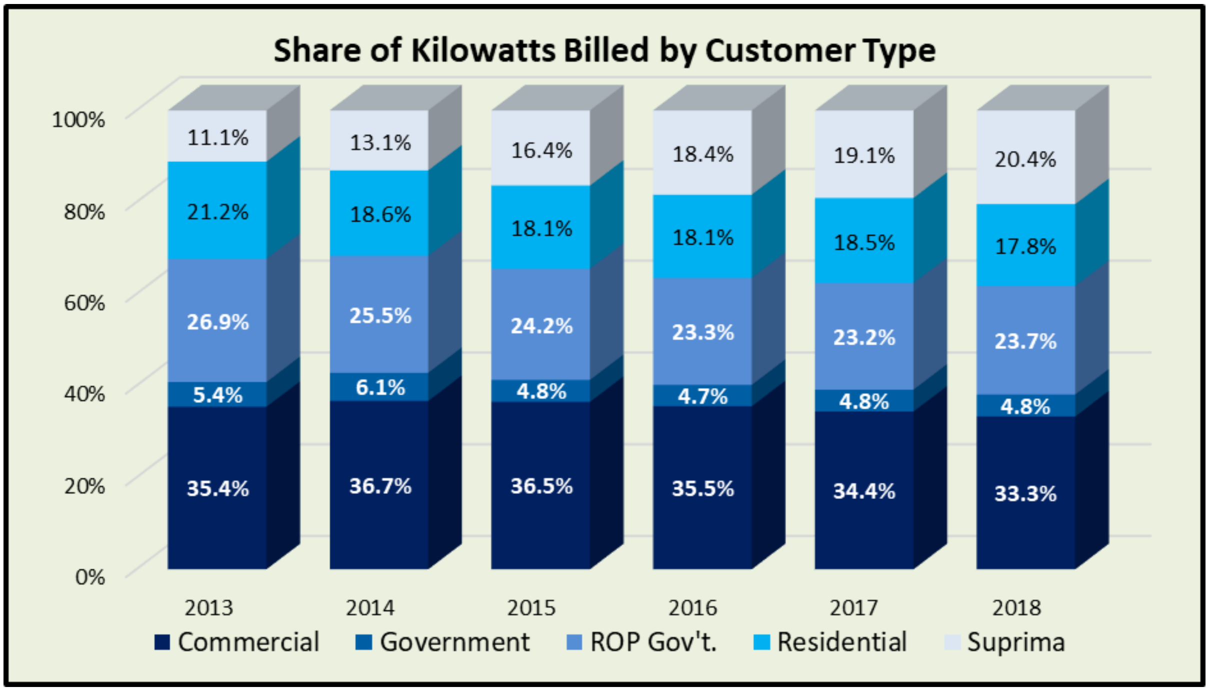
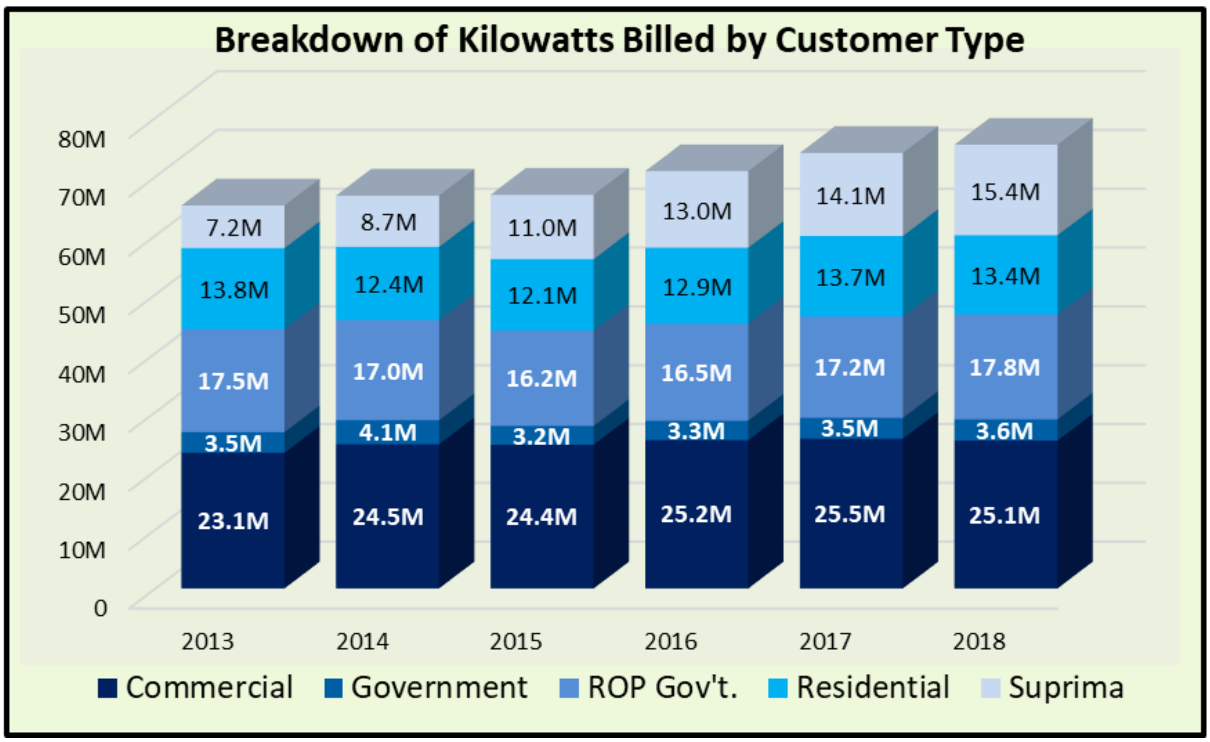
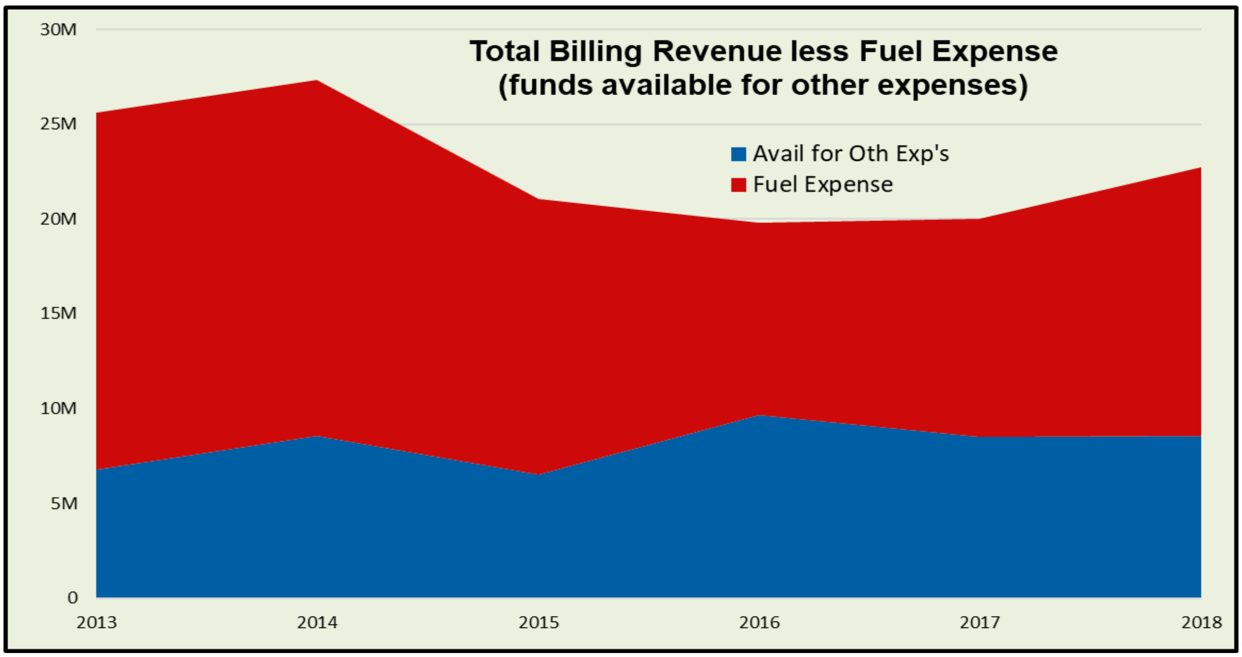


Chart 1.10



In Chart 1.11 below, the total shaded area represents total billing revenue for the years 2013 to 2018. The red shading represents fuel expenses, while the blue shading represents the amount remaining from billing revenue for other expenses, after meeting fuel expenses. This is significant, as it suggests that when fuel expenses are low (i.e.; fuel prices are low), the funds remaining for other expenditures are greater than when fuel prices are high, even given that tariffs are adjusted for fuel price increases. This trend is supported in that the lowest point in fuel costs – which occurred in 2016 – also corresponds with the last financial year in which electric operations generated an operating surplus The chart would suggest that should fuel prices remain in their current increasing trajectory, the amount of funds available to the Corporation to meet non-fuel expenses is likely to continue to shrink.

Chart 1.11



The outlook for electricity production and transmission will be increasingly impacted by two other non-market factors; (1) the continuing introduction of solar power generators by both commercial and residential customers under 'net metering' arrangements, and; (2) the establishment of the Palau Energy Administration, a power regulatory authority established by the Government of Palau, which has authority in relation to the setting of tariff rate increases; net metering arrangements; and independent power production arrangements.

The Corporation continues to be committed to a reduction in the reliance on fossil fuels for electricity production, and will be increasingly exploring alternative generation and supply arrangements advantageous to the customer, the Corporation, and the environment. The Corporation has released a Request for Proposals from proven independent photovoltaic power producers for the negotiation of supply of solar photovoltaic power to the Corporation for the potential supply of power to outlying islands and Koror/Babeldaob. The facilities will be operated and maintained by the independent power producer. The Corporation is pursuing – and will continue to pursue - these arrangements as potential opportunities to reduce the reliance on fossil fuels for electricity consumption, and support achievement of national targets relating to renewable energy sources.

Accounts Receivable

Chart 1.12 shows the share of EPO accounts receivable by customer type as at September 30, 2018. The major balance is held by WWO, arising from electricity supplied for WWO operations. As the WWO component represents internal transactions, it does not form part of the accounts of the overall Corporation, but is recorded to maintain the details of each segment of the Corporation's business.

Chart 1.12

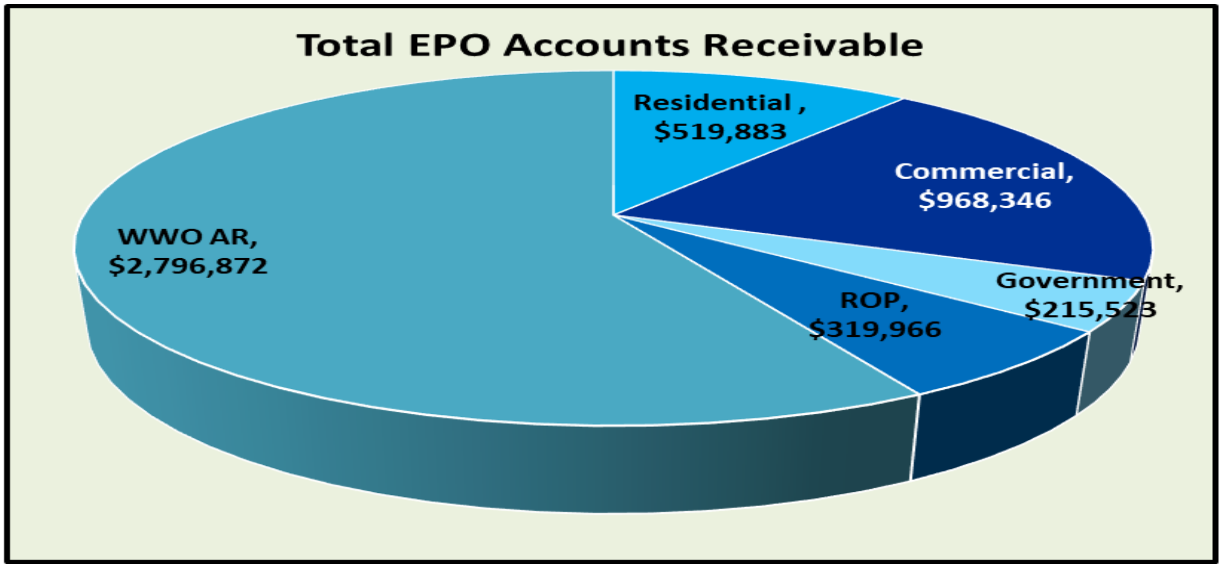
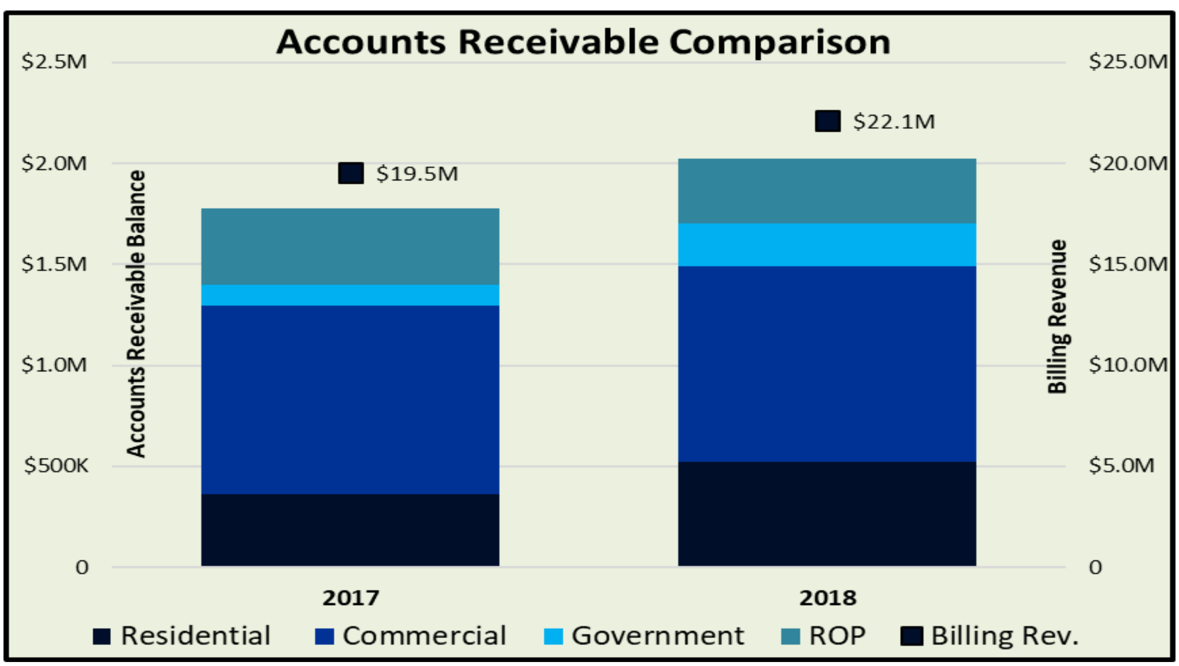


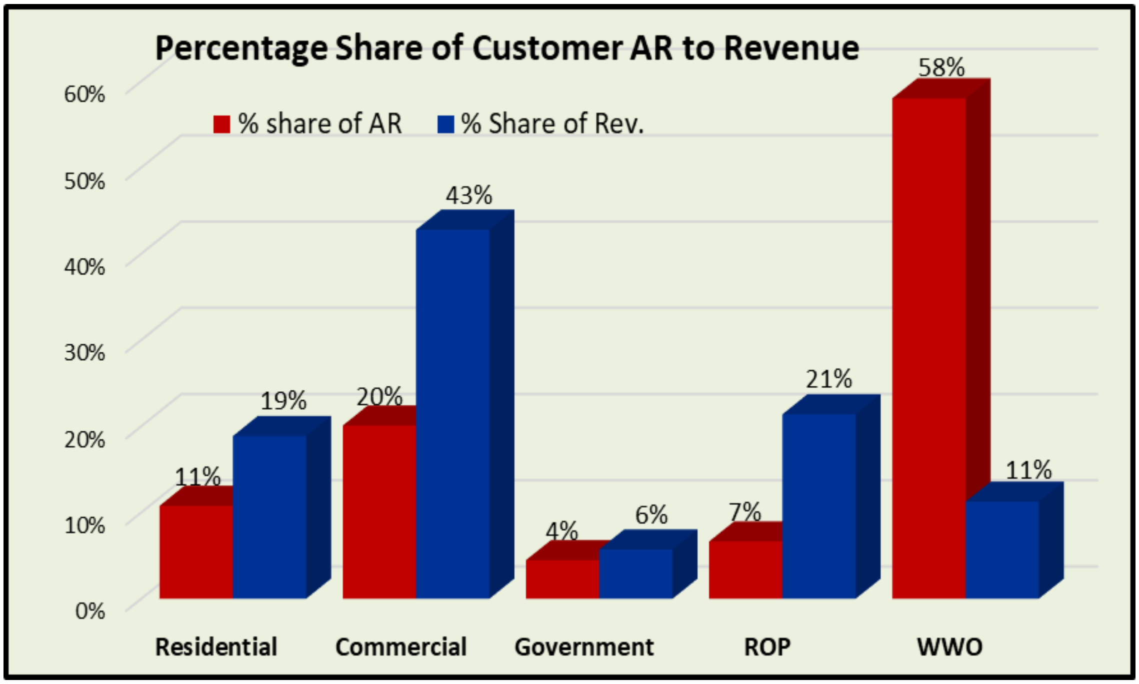
Chart 1.13 below shows the change in accounts receivable from 2017, excluding the WWO element. The accounts receivable balance has increased by 14% while the billing revenue has increased by 13%, indicating that the Corporation has maintained control over accounts receivable from 2017 to 2018.

Chart 1.13



The share of accounts receivable owed by customer groups is further analyzed in Chart 1.14, including the WWO component for reference. The chart compares the share of accounts receivable by each customer group to the share of revenue earned by Electricity Power Operations from each group. Suprima revenue is excluded as it is prepaid and hence has no accounts receivable impact. Each group has a similar ratio, except for WWO, which is substantially higher due to the balance being an internal transaction.

Chart 1.14



PPUC Water and Waste Water Operations

Historically, water and wastewater services were operated by the Bureau of Public Works as part of a Government Department, which was later divested and became the Palau Water & Sewer Corporation. PPUC, through the Merger Act of RPPL No. 9-04, assumed management of water and sewer systems and infrastructure, much of which were aging; poorly maintained; and inadequate to meet expanding development pressures. Substantial efforts had preceded the merger that secured long-term loans with favorable terms provided by the Asian Development Bank (ADB) to finance major improvements in the water system. These are the Water Sector Improvement Project (WSIP loan of $16M) and capacity-expansion for the sewer systems of the two densely populated cities of Koror and Airai (roughly $28M).

PPUC WWO Financial Highlights

Table 2.1 below shows the revenues, expenses and changes in net position of the water and wastewater operations for the past three fiscal years ended September 30, 2016 through September 30, 2018.

Table 2.1

	(Dollars in Thousands)				
Water/Wastewater Operations	**Sept. 30, 2018**	**Sept. 30, 2017**	**Sept. 30, 2016**	**Incr (Decr) 2018**	**Incr (Decr) 2017**
Revenues, Expenses, and Changes in Net Position					
Operating Revenues;					
- Water & Wastewater	$ 5,616	$ 5,436	$ 4,390	$ 180	$ 1,046
- Others	$ 374	$ 157	$ 119	$ 217	$ 38
- Prov'n for Bad Debt	$ (588)	$ (22)	$ (22)	$ (566)	$ -
Non-operating Rev(Exp)	$ 1,564	$ (73)	$ 2,725	$ 1,637	$ (2,798)
Total Revenue	**$ 6,966**	**$ 5,498**	**$ 7,212**	**$ 1,468**	**$ (1,714)**
Operating Expenses					
- Water & Wastewater	$ 5,987	$ 4,786	$ 5,048	$ 1,201	$ (262)
- Depreciation	$ 1,848	$ 1,703	$ 1,753	$ 145	$ (50)
- Administration	$ 1,171	$ 1,005	$ 819	$ 166	$ 186
Total Operating Expenses	**$ 9,006**	**$ 7,494**	**$ 7,620**	**$ 1,512**	**$ (126)**
Capital Contributions	$ 5,194	$ 10,319	$ 2,325	$ (5,125)	$ 7,994
Change in Net Position	$ 3,154	$ 8,323	$ 1,917	$ (5,169)	$ 6,406
Beginning Net Position	$ 16,998	$ 8,675	$ 6,758	$ 8,323	$ 1,917
Ending Net Position	**$ 20,152**	**$ 16,998**	**$ 8,675**	**$ 3,154**	**$ 8,323**

Revenue has fluctuated substantially due to the impact of non-operating revenue, largely being the ROP subsidy. The subsidy was not provided in 2017, which significantly affected total revenue. In addition, the provision for bad debt has increased from $22,000 in 2017 to $588,000 in 2018. This was due to the discovery of a small number of major receivables that appear related to water leakages and have been unreported for a substantial time. These amounts have been established as provisions pending further investigation to determine whether – and how much – should be written-off.

Chart 2.1 below shows operating and non-operating revenues (excluding the provision for bad debts) compared to total expenses, for the years 2014 through 2018. The chart demonstrates that operating revenues have increased at a substantial and stable rate since 2014, reflecting commitment by the Corporation to the five-year tariff rate structure intended to move Water & Wastewater Operations to full cost recovery. The ROP subsidy, intended to meet the cost of servicing unprofitable locations (known as a 'community service obligation'), has assisted the Corporation achieve close to cost recovery, for the years when the subsidy was provided.

Chart 2.1

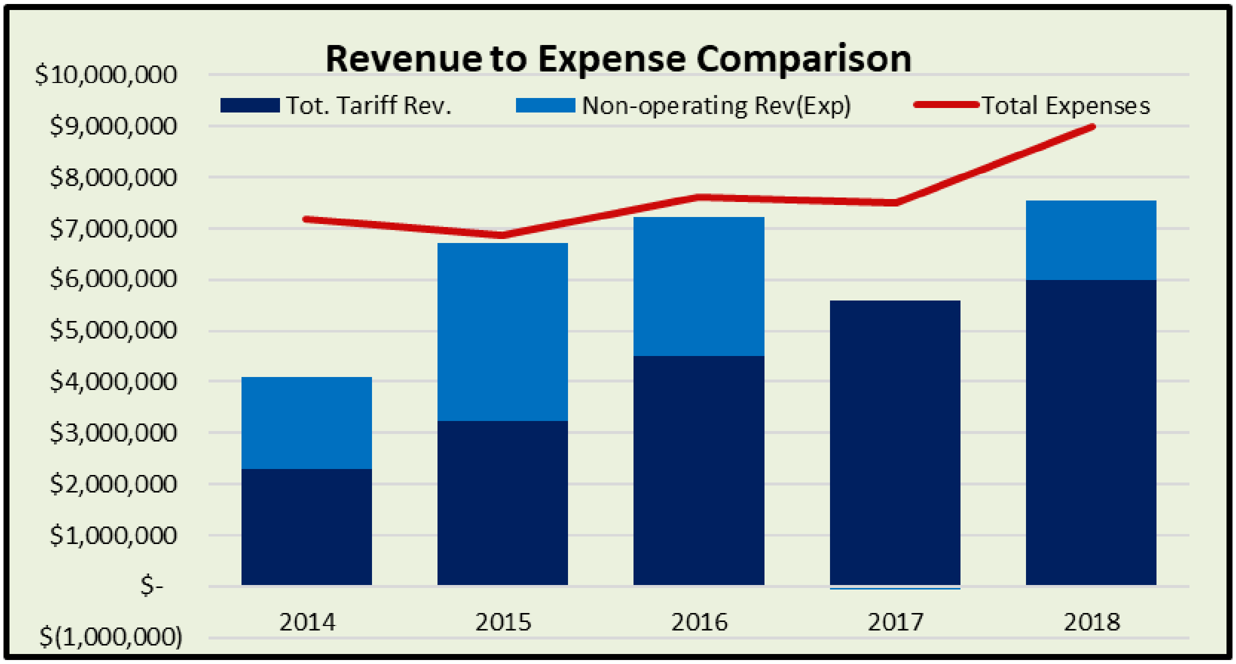


Chart 2.2 shows the changes in major expense categories since 2014, after the merger of Water & Wastewater Operations with the Corporation. Expenses have increased as the Corporation has invested in improving the quality and efficiency of operations. Wastewater operations has incurred increased maintenance to reduce spills and overflows which have a negative impact on the environment of Palau. Maintenance has increased as implementation of the water and sewer systems project unearths deteriorated infrastructure in related areas which must be rectified by the Corporation. Similarly, investment has been made in water operations to reduce the loss of water throughout the distribution system and make the water source more resilient to the impact of climate change. This has become of greater importance since the significant drought during 2016 which resulted in severe water restrictions and undesirable impacts on customers, residents, tourists and visitors.

Other major increases in expenses relate to equipment and supplies for maintenance and repair of the water and wastewater systems; repair of road surfaces subsequent to excavation and repair of pipes; and fines applied by the Environmental Quality Protection Board relating to wastewater spills that resulted from the aging infrastructure that the Corporation continues to be committed to improving.

Chart 2.2

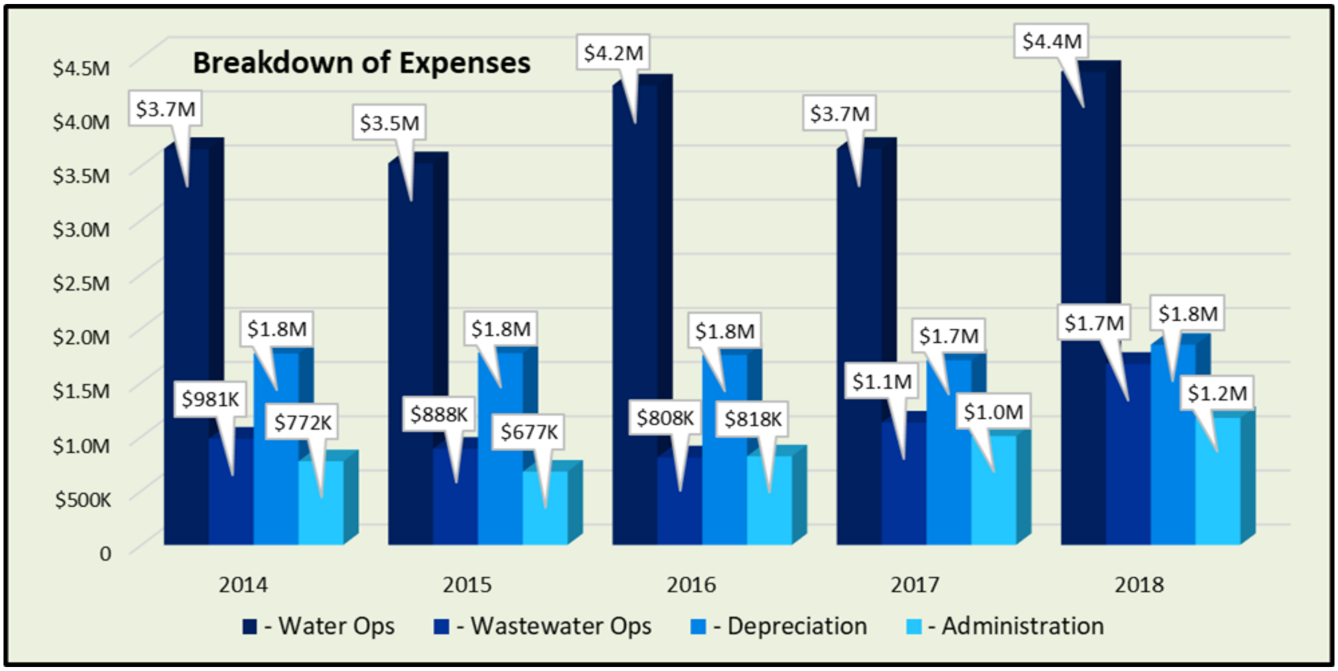
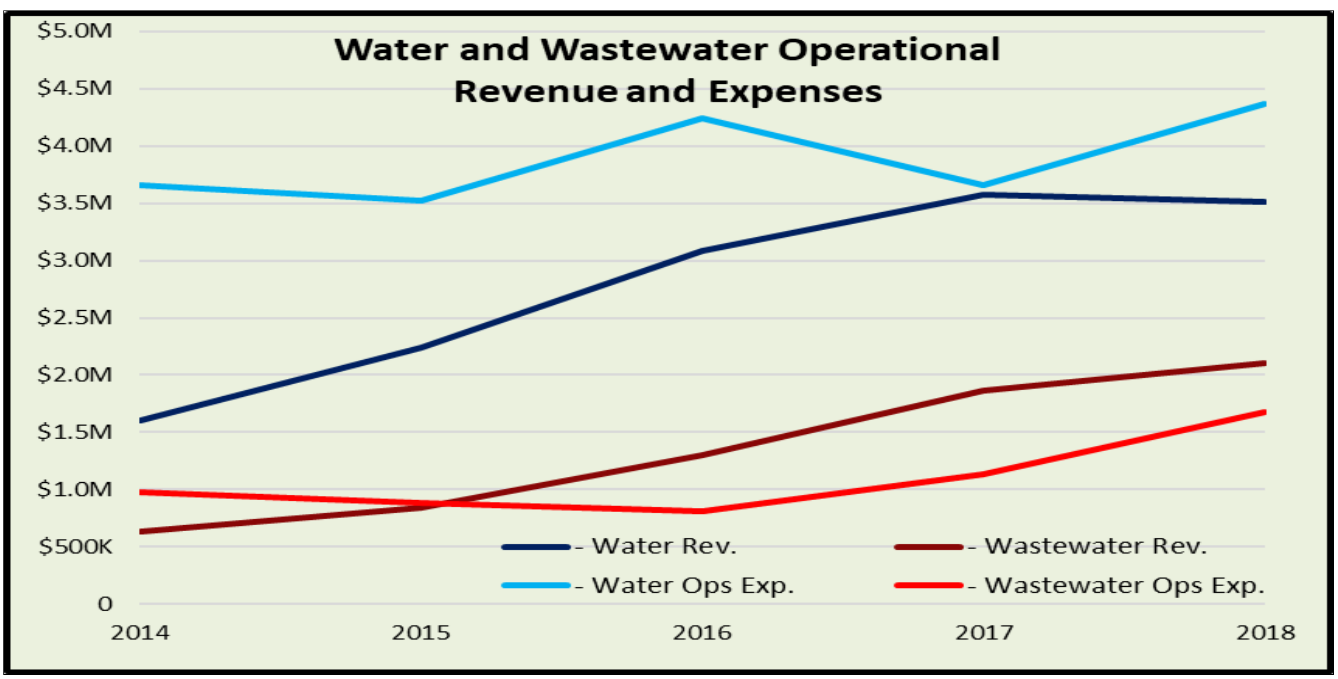


Chart 2.3 depicts operational revenue and expenses for both Water and Wastewater operations. The expenditures include only direct costs, and exclude Administration and Depreciation, which are not allocated separately to the individual services. The loss in Water operations relates to services to outlying states, which recorded an operating loss on this same basis of approximately $1.1 million in 2018. Excluding outlying states services, Water operations would have recorded a surplus in tariff revenues less direct operational expenses.

Chart 2.3



The following table shows the assets, liabilities, and change in net position of the water and wastewater operations for the past three fiscal years ended September 30, 2016 through September 30, 2018.

Table 2.2

(Dollars in Thousands)

Water/Wastewater Operations	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2016	Incr (Decr) 2018	Incr (Decr) 2017
Statement of Net Position					
Current Assets	$ 4,602	$ 5,804	$ 6,381	$ (1,202)	$ (577)
Other Assets	$ 129	$ 116		$ 13	$ 116
Net Utility Plant	$ 41,457	$ 28,532	$ 13,694	$ 12,925	$ 14,838
Total Assets	$ 46,188	$ 34,452	$ 20,075	$ 11,736	$ 14,377
Deferred Outflows from Pension	$ 2,175	$ 1,815	$ 1,132	$ 360	$ 683
	$ 48,363	**$ 36,267**	**$ 21,207**	**$ 12,096**	**$ 15,060**
Current Liabilities	$ 6,922	$ 5,304	$ 3,764	$ 1,618	$ 1,540
Other Liabilities	$ 12,676	$ 6,111	$ 1,910	$ 6,565	$ 4,201
Net Pension Liability	$ 7,389	$ 6,995	$ 5,759	$ 394	$ 1,236
Total Liabilities	$ 26,987	$ 18,410	$ 11,433	$ 8,577	$ 6,977
Deferred Inflows from Pension	$ 1,224	$ 859	$ 1,099	$ 365	$ (240)
	$ 28,211	**$ 19,269**	**$ 12,532**	**$ 8,942**	**$ 6,737**
Invested in Capital Assets	$ 28,086	$ 22,172	$ 11,784	$ 5,914	$ 10,388
Unrestricted	$ (7,934)	$ (5,174)	$ (3,109)	$ (2,760)	$ (2,065)
Total Net Position	**$ 20,152**	**$ 16,998**	**$ 8,675**	**$ 3,154**	**$ 8,323**

Current assets have declined as the Corporation utilized cash to support its operations (cash on hand has declined by $1 million from 2017) and due to the impact of the substantial increase in the provision for doubtful debts ($588,000).

Utility plant has increased in value by some $13 million, reflecting the progress in water and wastewater capital rehabilitation and expansion. Similarly, other liabilities have increased by $6.5 million, representing loan funds required to finance the project. Grants of $5.2 million provided by the Government of Japan, for the purpose of replacing much of the existing water transmission and distribution network in Koror and Airai, was responsible for the remainder of the increase in utility plant value.

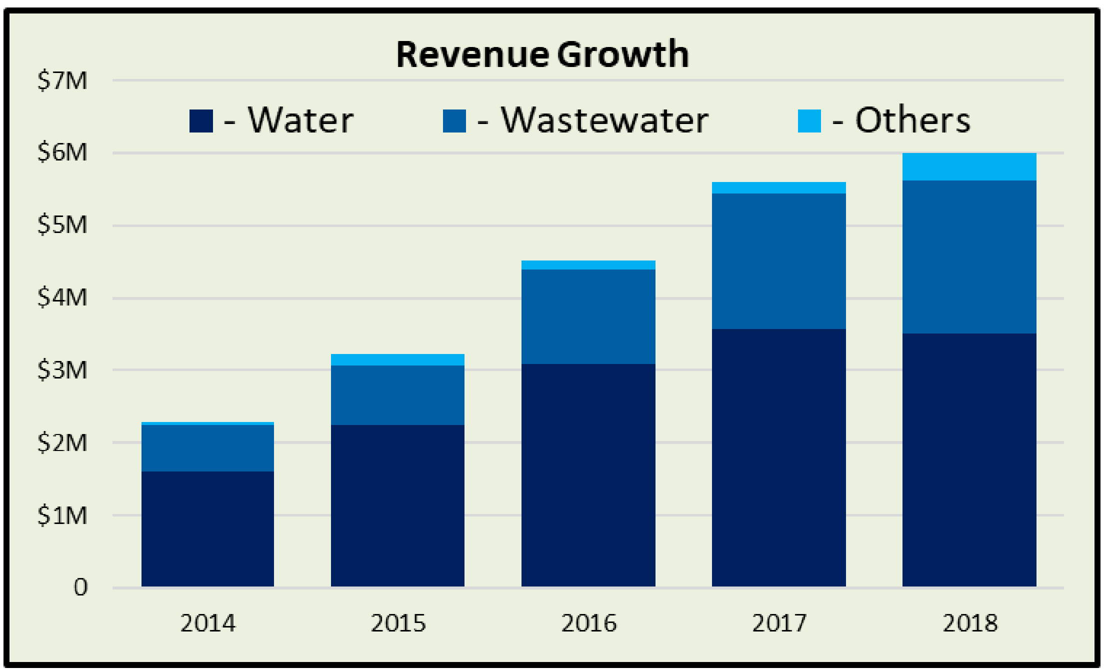
The increase in current liabilities is represented by an increase in accounts payable of approximately $1 million, and an increase in the amount of current repayments relating to long-term debt of approximately $450,000.

Water & Wastewater Operations Analysis

The Corporation has adopted an environmentally responsible approach to the provision of water services, one which recognizes that water reserves are finite and must be managed responsibly to ensure sustainability of supply, and which maintains the ecological balance of the habitat which surrounds the shared water sources. Hence, the Corporation promotes conservation through incentivizing customers to reduce their consumption. This is achieved through a combination of promotional activities, and price incentives. The Corporation adopted a long-term tariff structure that would both move Water and Wastewater operations towards financial sustainability, and influence customers to reduce unnecessary consumption. These aspects were of great significance given the uneconomically low charges previously levied when the services were under full government control.

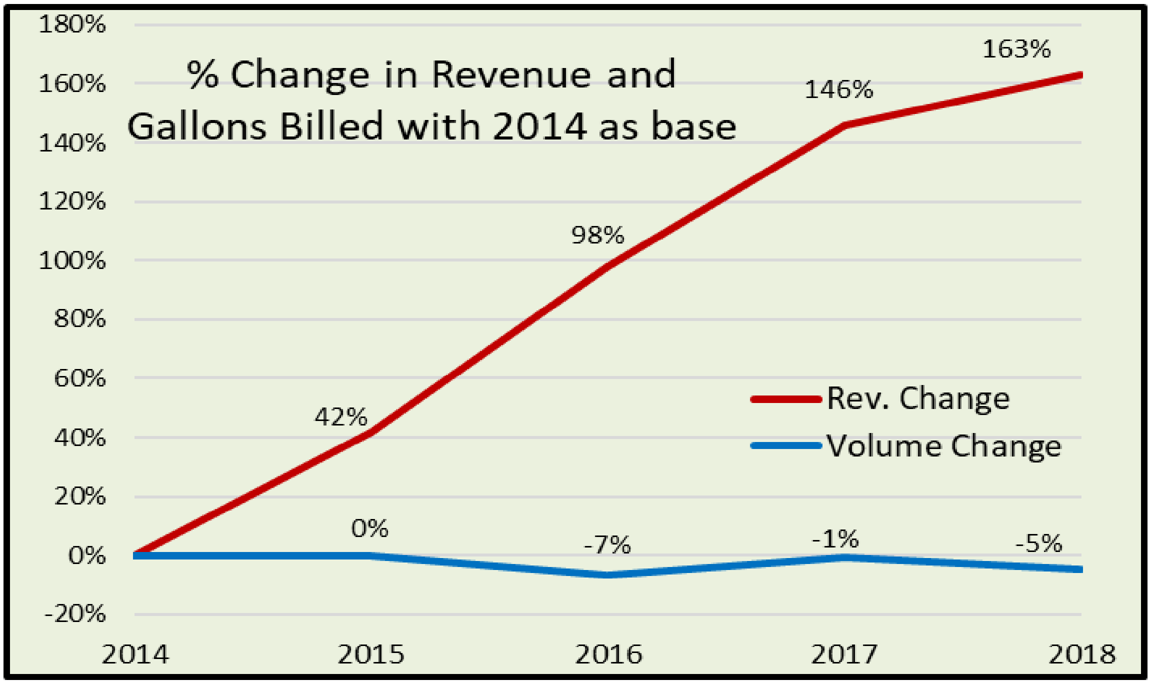
Chart 2.4 demonstrates the growth in revenue that has occurred as a result of adopting the aggressive long-term tariff rate structure to achieve cost recovery. The chart shows significant increases until 2018, when the government instructed that planned tariff rate increases be deferred, and 2017 tariff rates be held constant. The 2018 increase was due to an increase in customer numbers and the meter installation program, and not from tariff increases.

Chart 2.4



While revenue growth has been significant, it is evident that it has been achieved while also adopting conservation strategies that have achieved real results in influencing customer behavior. Chart 2.5 shows that while Revenue has increased by 150% since 2014, the volume of gallons billed has reduced by 5%. Clearly, both the conservation incentives and the tariff rate strategy have borne clear and significant results.

Chart 2.5



In addition to this, the restraint in consumption has been achieved while at the same time, customer numbers have increased significantly. Chart 2.6 shows the increase in customer numbers since 2014 compared to the change in total gallons billed. Customer numbers have increased substantially, while total gallons billed has declined (2016 shows the additional impact on consumption of restrictions imposed due to the prolonged drought).

Chart 2.6

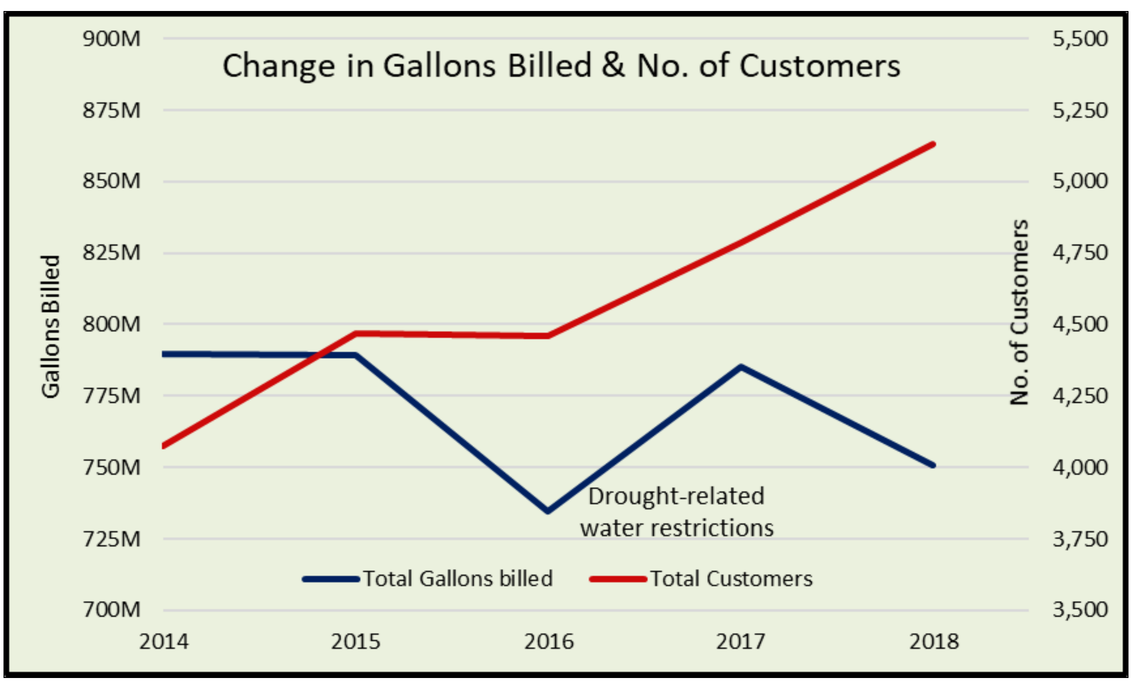


Chart 2.7 shows the average consumption in gallons by each customer type. Commercial customers, in particular, have reduced their average consumption, followed by residential customers, while Government and ROP customer consumption has varied up and down. The red-dotted line shows the change in consumption for all customers.

Chart 2.7

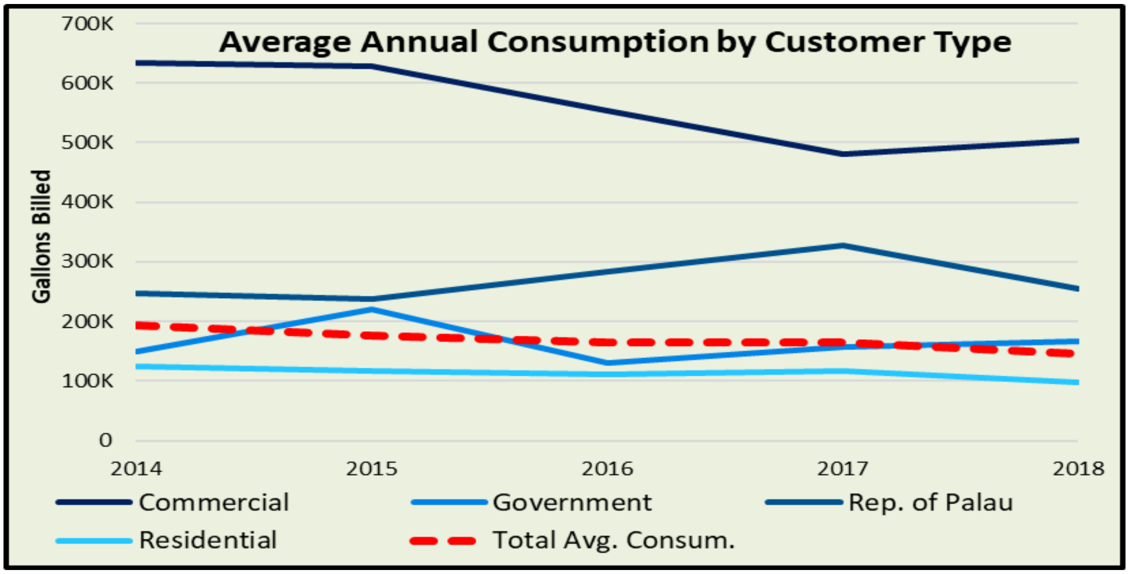


Chart 2.8 depicts the growth in customer numbers since 2014. Both Commercial and Residential customers numbers have grown in unison. The decrease in Commercial customers and the related sharp increase in residential customers in 2015 was likely due to customers changing category due to the substantial differential tariff rates between Commercial and Residential customers.

Chart 2.8

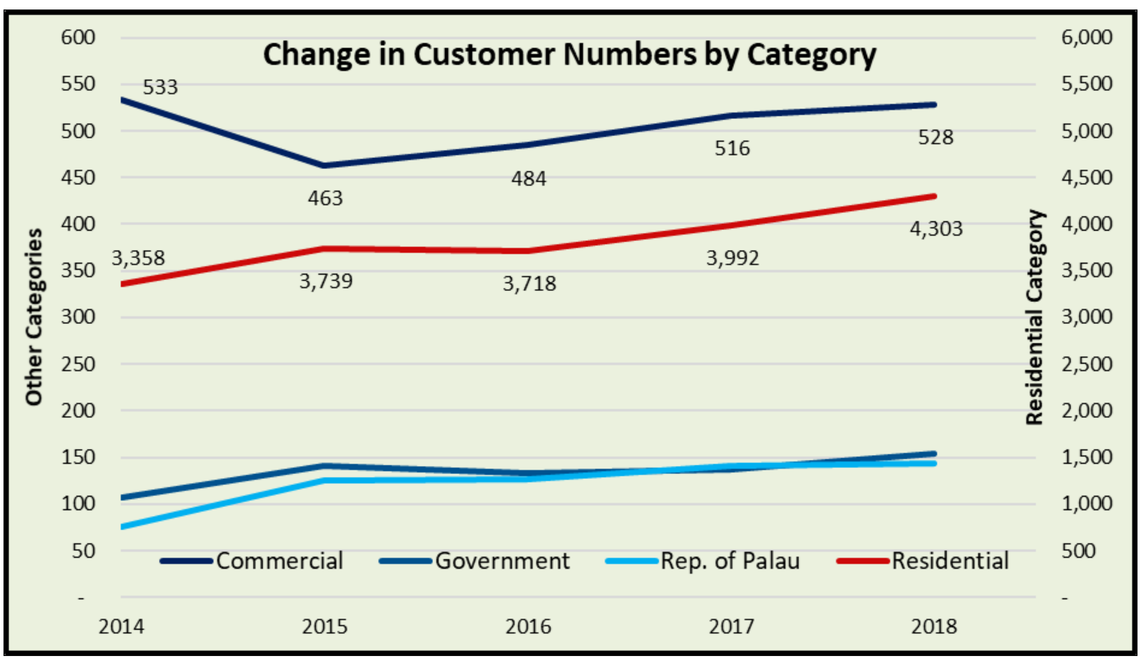
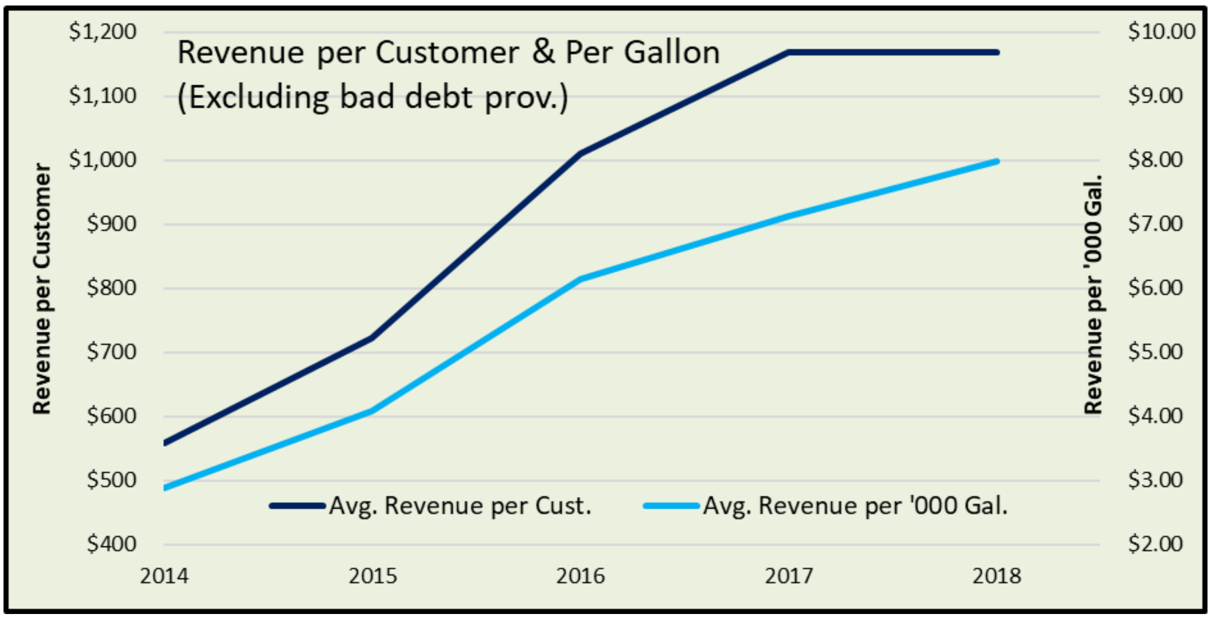


Chart 2.9 shows the change in average annual revenue per customer and the average revenue per 1,000 gallons sold. The average revenue per customer grew from 2014 through 2017, then remained flat in 2018, reflecting the deferral of planned tariff increases. Average revenue per 1,000 gallons sold has continued to grow, suggesting that, as shown in Chart 2.7, the upturn in 2018 in higher paying commercial customers is offsetting residential decreases, resulting in a higher average sale price per 1,000 gallons, due to the higher tariff rate for commercial and government customers.

Chart 2.9



Improvement in the net operating result for WWO has been slower than originally forecasted, due both to deferrals in the implementation of scheduled tariff rate increases, and the maintenance needs of infrastructure that is in poorer condition than anticipated when handed-over by the government.

The fiscal sustainability of operations in Koror and Airai continue to improve, as most of the consumption growth is in these areas, and the addition of metering devices has improved the accuracy of billing and increased revenue. It is anticipated that as system losses continue to be reduced; customer growth continues to increase; and the tariff rate structure continues to be implemented, that Koror/Airai operations will achieve a balanced net operating result within the 3 – 5 year outlook.

Outlying States water and wastewater operations continue to record a substantial net operating deficit, and this is unlikely to improve significantly in the foreseeable future. Substandard and obsolete infrastructure; the small scale of operations; labour-intensive systems; and frozen tariff rates combine to produce a profit outlook unlikely to change substantially under any realistic scenario. WWO will continue to rely upon government support to offset the non-commercial status of Outlying States water operations and, at the same time, continue to work towards improved fiscal performance.

CAPITAL ASSETS and LONG-TERM DEBT

Capital Assets

The following table summarizes PPUC's capital assets by category and accumulated depreciation, and the changes therein for the years ended September 30, 2016 through 2018. The total investment in capital assets amounted to $76.3 million (net of accumulated depreciation). The increase in the overall corporate capital assets of $11.5 million was due principally to expansion of the water infrastructure network, financed by long-term debt and grants from the Government of Japan.

CAPITAL ASSETS:	Sept 30, 2018	Sept 30, 2017	Sept 30, 2016	Increase (Decrease) 2018	Increase (Decrease) 2017
Electric Plants:					
Electric Plants, Koror/Aimeliik	40,630	38,971	39,391	1,659	(420)
Electric Plants, Outlying States	2,141	2,473	2,664	(332)	(191)
Total Electric Plants	42,771	41,444	42,055	1,327	(611)
Accumulated Depreciation	(20,306)	(18,835)	(17,344)	(1,471)	(1,491)
Net Electric Plant	22,465	22,609	24,711	(144)	(2,102)
Transmission & Distribution System					
T&D System, Koror/Aimeliik	18,521	18,219	17,694	302	525
T&D System, Outlying States	2,120	2,127	2,127	(7)	-
Total T&D System	20,641	20,346	19,821	295	525
Accumulated Depreciation	(12,940)	(12,328)	(11,689)	(612)	(639)
Net T&D System	7,701	8,018	8,132	(317)	(114)
Water & Sewer Systems					
Water Infrastructure	40,025	24,059	23,476	15,966	583
Sewer Infrastructure	20,688	20,688	20,688	-	-
Total Water & Sewer Systems	60,713	44,747	44,164	15,966	583
Accumulated Depreciation	(36,803)	(35,646)	(33,949)	(1,157)	(1,697)
Net Water & Sewer Systems	23,910	9,101	10,215	14,809	(1,114)
Water & Sewer Transmission & Distribution System					
WWO T&D System, Koror/Babeldaob	1,381	385	318	996	67
Total WWO T&D System	1,381	385	318	996	67
Accumulated Depreciation	(146)	(98)	(63)	(48)	(35)
Net WWO T&D System	1,235	287	255	948	32
Administrative Equipment					
Buildings	3,169	2,438	2,193	731	245
Heavy Equipment & Vehicles	3,055	2,143	1,880	912	263
Tools & Maint Equipment	438	445	446	(7)	(1)
Computers & Office Equipment	1,443	1,419	945	24	474
Total Admin Equipment	8,105	6,445	5,464	1,660	981
Accumulated Depreciation	(4,048)	(3,146)	(3,056)	(902)	(90)
Net Admin Equipment	4,057	3,299	2,408	758	891
Total Capital Projects in Progress	16,950	21,512	3,855	(4,562)	17,657
TOTAL	$ 76,318	$ 64,826	$ 49,576	11,492	15,250

Refer to note 7 to the financial statements for additional information about PPUC's utility plant.

Long-Term Debt

The international and local loans were acquired to purchase additional generation capacity and to finance major repairs and generation auxiliary equipment. The long- term soft loan secured by ROP from Asian Development Bank was subsequently loaned to PPUC as per the subsidiary loan agreements dated March 28, 2014. Proceeds will be used to upgrade the Koror sewerage system and construct wastewater treatment plant. The ADB loan amount as of September 30, 2018 reflects the total amount of the loan proceeds withdrawn and is recognized as long-term debt in the financial statements.

(Dollars in thousands)	Original		Sept 30, 2018	
International Loan	$	7,000	$	3,400
Local Loan	$	3,300	$	1,826
ADB Loan	$	28,667	$	13,291
TOTAL	$	38,967	$	18,517

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

Contracts amounting to $24 million have been awarded as shown in the table below:

ADB Loan Contractors	KASP Project Components	Contract Amount ('000)	
Progetti Plant, SRL	ICB-01 - Sewer Network Rehabilitation & Expansion at Malakal & Meyuns	$	5,661
Pacific Engineering Projects, Ltd.	ICB-02 - Koror Sewer Network Rehabilitation & Expansion Works		5,074
Pacific Engineering Projects, Ltd.	ICB-03 - Malakal Sewer Treatment Plant Upgrade		9,826
Egis Eau	Project Implementation Assistance Consultants (PIAC)		3,408
US Jetting, LLC	High Pressure Jetter for Sewage System		62
		$	24,031

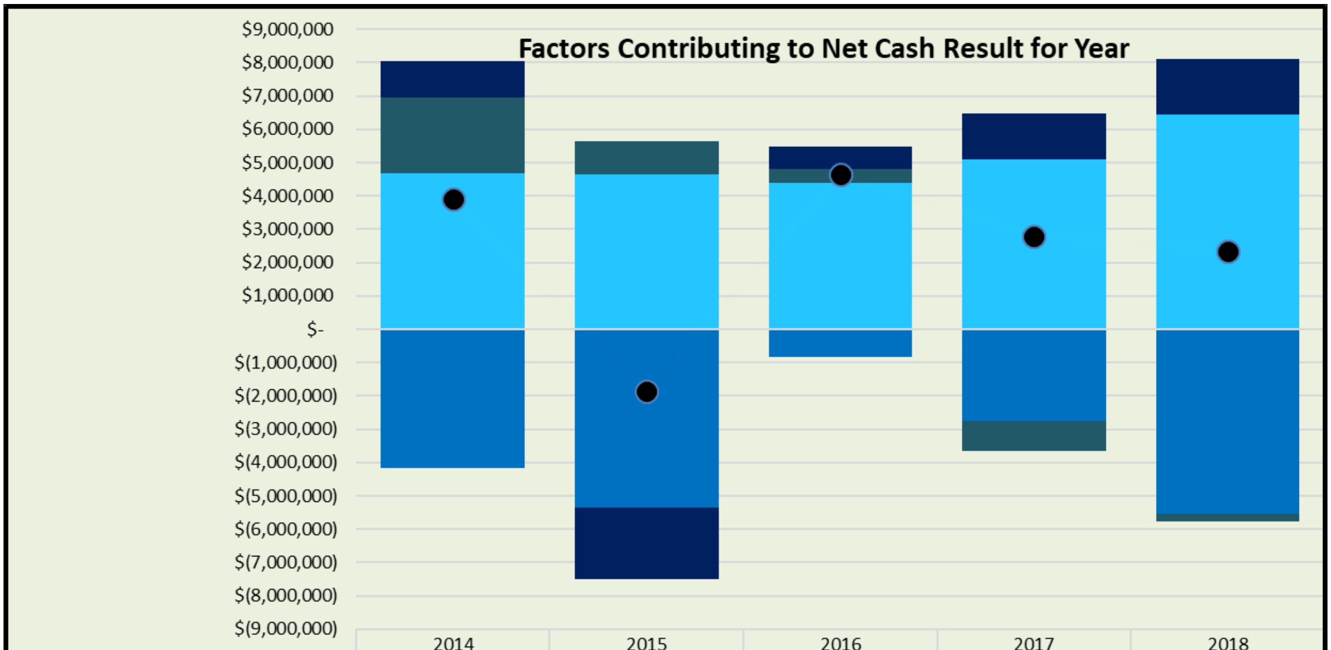
Cash Position

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

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

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

The chart below shows the net operating cash surplus or deficit for the Corporation from 2014 through 2018. This cash result arises from a variety of factors. The chart attempts to show the impact of those factors. In most years, the Corporation has recorded a cash surplus. That cash surplus has mainly arisen from provisions made for depreciation, which is an expense that recognizes the cost associated with the reduction in the value of assets used in operations, but which is not a cash expense. Another contributing factor has been an increase in operating liabilities (an increase in what the Corporation owes to outsiders), particularly in the last three years. The major factor negatively impacting the cash result has been the operating loss recorded in each of the years. Of only minor impact has been the change in operating assets in each of the years.



	2014	2015	2016	2017	2018
Incr.(decr.) in liabilities	$1,089,840	$(2,156,458)	$665,187	$1,381,221	$1,657,087
Decr.(incr.) in assets	$2,279,245	$986,778	$425,487	$(922,797)	$(219,226)
Depr'n & non-cash prov'ns	$4,686,891	$4,663,114	$4,385,834	$5,087,798	$6,455,008
Operating profit(loss)	$(4,150,554)	$(5,342,132)	$(831,893)	$(2,742,600)	$(5,537,206)
Net Cash Surplus(Def.) from Ops	$3,905,422	$(1,848,698)	$4,644,615	$2,803,622	$2,355,663

FUTURE OUTLOOK

Palau is an island paradise, with all the attractions and idyllic scenery that such a title evokes. However, like most island paradises, it is a delicate and fragile environment that is sensitive to the global forces of climate change and to local impact on the quality of the land and marine environment.

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

Both electrical and water/wastewater services require continued investment to maintain infrastructure at safe operational standards. This investment can only come from tariff rates applied to customers for use of the services. RPPL 9-04 requires the Corporation to apply tariff rates for electrical and water and wastewater services that ensure "**adequate"** charges are imposed for its services. The Corporation interprets the meaning of "adequate" to be that charges should be sufficient to meet the operating and capital costs of providing the services.

Current tariff rates are not adequate to meet this obligation. In addition, the Corporation has been instructed since October 2017 not to change tariff rates. Freezing already inadequate tariff rates imposes a compounding financial burden on the Corporation and is contrary to the spirit and intent of the legal requirements on the Corporation in RPPL 9-04 with respect to setting of tariffs.

The Corporation exists as a commercial entity. It has an obligation to meet its costs through the imposition of adequate charges. In respect of water and wastewater charges, the Corporation had been increasing tariffs in a staged manner in order to fully meet costs over a five-year period. In respect of electricity services, the Corporation is required to adjust tariffs to meet changing fuel costs, which have been evidenced in this report to have been increasing since 2016. Restricting the capacity of the Corporation to adjust tariffs for the purposes of applying "adequate" charges undermines the responsibility of the Corporation to adopt commercially responsible practices.

The financial outlook for the Corporation is subject to its capacity to apply adequate charges for electrical and water and wastewater services. Being unable to change tariff rates will negatively impact financial performance and erode the Corporation's capital base, potentially leading to an inability to replace or upgrade major capital and infrastructure.

An uncertain tariff charging environment will cause hardship for the Corporation and uncertainty for its customers. It is important that both the Corporation and the national government work towards developing a responsible tariff rate policy and structure that well-positions the Corporation to meet its obligation of not only cost recovery, but of providing sustainable, high quality, reliable and environmentally responsible utility services to the people of Palau.

CONTACTING PPUC'S FINANCIAL MANAGEMENT

This financial report is designed to provide PPUC's rate payers, creditors, funding sources, and other interested parties with a general overview of PPUC's finances operations and to demonstrate PPUC's accountability for the money it receives. Management's Discussion and Analysis for the year ended September 30, 2017 is set forth in PPUC's report on the audit of financial statements which is dated May 3, 2018.

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

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

Statements of Net Position
September 30, 2018 and 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2018	2017
Utility plant:		
Depreciable utility plant	$ 59,368,033	$ 43,314,665
Non-depreciable utility plant	16,950,144	21,511,564
Net utility plant	76,318,177	64,826,229
Current assets:		
Cash and cash equivalents	11,598,369	12,389,404
Receivables:		
Trade	4,059,683	3,875,292
Affiliate	608,922	675,775
Contracts	125,480	178,131
Other	34,527	26,918
	4,828,612	4,756,116
Less allowance for doubtful accounts	(1,788,987)	(1,082,651)
Net receivables	3,039,625	3,673,465
Prepaid expenses	508,400	213,114
Inventory, net	8,213,698	8,361,202
Due from grantor agencies	-	191,000
Total current assets	23,360,092	24,828,185
Other non-current assets:		
Contracts receivable, net of current portion	306,459	304,128
Total assets	99,984,728	89,958,542
Deferred outflows of resources from pension	5,562,644	3,400,221
	$ 105,547,372	$ 93,358,763
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Net position:		
Net investment in utility plant	$ 59,569,487	$ 54,580,817
Unrestricted	(3,319,074)	650,242
Total net position	56,250,413	55,231,059
Commitments and contingencies		
Current liabilities:		
Current portion of long-term debt	1,304,886	833,601
Accounts payable	6,981,287	5,550,302
Accrued expenses	908,774	807,210
Grant advances from the Republic of Palau	786,762	682,883
Customer deposits	1,193,497	1,043,594
Total current liabilities	11,175,206	8,917,590
Long-term debt, net of current portion	17,211,804	11,387,811
Net pension liability	18,054,380	16,006,220
Total liabilities	46,441,390	36,311,621
Deferred inflows of resources from pension	2,855,569	1,816,083
	$ 105,547,372	$ 93,358,763

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018	2017
Operating revenues:		
Power	$ 19,941,074	$ 17,581,267
Water	3,496,008	3,495,467
Wastewater	2,101,754	1,860,942
Other	1,475,333	1,155,445
Total operating revenues	27,014,169	24,093,121
Provision for uncollectible receivables	(706,602)	(146,066)
Net operating revenues	26,307,567	23,947,055
Operating expenses:		
Generation - fuel	14,025,809	11,520,541
Depreciation	4,823,183	4,430,915
Generation - other cost	3,617,803	3,730,413
Administration	2,921,380	1,965,953
Distribution and transmission	1,566,512	1,355,904
Engineering services	762,448	531,671
Renewable energy	224,187	238,241
Water operations	2,673,523	2,235,056
Wastewater operations	1,229,928	680,961
Total operating expenses	31,844,773	26,689,655
Operating loss	(5,537,206)	(2,742,600)
Nonoperating revenues (expenses):		
Operating subsidies from the Republic of Palau	1,695,000	-
Grants	45,000	42,000
Interest income	2,919	2,818
Interest expense	(424,657)	(375,269)
Loss on disposal of utility plant	(28,378)	(158,834)
Others	7,003	(33,752)
Total nonoperating revenues (expenses), net	1,296,887	(523,037)
Loss before capital contributions	(4,240,319)	(3,265,637)
Capital contributions:		
Grants from the Japan Government	5,173,965	10,318,720
Capital contributions from the Republic of Palau	85,708	130,800
Change in net position	1,019,354	7,183,883
Net position at beginning of year	55,231,059	48,047,176
Net position at end of year	$ 56,250,413	$ 55,231,059

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from customers	$ 27,356,134	$ 24,157,239
Cash payments to suppliers for goods and services	(19,138,285)	(16,545,304)
Cash payments to employees for services	(5,862,186)	(4,808,313)
Net cash provided by operating activities	2,355,663	2,803,622
Cash flows from investing activities:		
Interest income	2,919	2,818
Cash flows from non-capital financing activities:		
Appropriations received from the Republic of Palau	1,695,000	-
Cash received from grantor agencies	236,000	42,000
Net cash provided by non-capital financing activities	1,931,000	42,000
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	7,631,740	4,378,102
Principal payment on long-term debt	(1,336,462)	(571,934)
Interest paid on long-term debt	(429,645)	(306,885)
Advances from the Republic of Palau	200,000	150,000
Acquisition of utility plant	(11,146,250)	(9,531,898)
Net cash used in capital and related financing activities	(5,080,617)	(5,882,615)
Net change in cash and cash equivalents	(791,035)	(3,034,175)
Cash and cash equivalents at beginning of year	12,389,404	15,423,579
Cash and cash equivalents at end of year	$ 11,598,369	$ 12,389,404

	2018	2017
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (5,537,206)	$ (2,742,600)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	4,823,183	4,430,915
Provision for uncollectible receivables	706,602	146,066
Pension expense	925,223	510,817
(Increase) decrease in assets:		
Receivables:		
Trade	(184,657)	47,188
Affiliate	66,853	124,929
Contracts	50,320	(159,942)
Other	(7,609)	(5,201)
Prepaid expenses	(295,286)	20,963
Inventory	151,153	(950,734)
Increase (decrease) in liabilities:		
Accounts payable	1,430,985	1,239,591
Accrued expenses	106,551	84,486
Grant advances from the Republic of Palau	(30,352)	(27,174)
Customer deposits	149,903	84,318
Net cash provided by operating activities	$ 2,355,663	$ 2,803,622

Non-cash transactions:

In 2018 and 2017, utility plant includes approximately $5 million and $10 million, respectively, of assets acquired through grants from the Japan Government.

See accompanying notes to financial statements.

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Accounting Estimates

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

Cash and Cash Equivalents

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

Receivables

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

(2) Summary of Significant Accounting Policies, Continued

Inventory

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

Utility Plant

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

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

Net Position

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

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

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

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

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

Revenue

Sales of electricity, water and wastewater services are recorded as billed to customers on a monthly cycle billing basis. For electricity billings, PPUC factors a variable fuel surcharge into its monthly billings to recover the costs of fuel. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Unbilled revenues at September 30, 2018 and 2017 were $1,074,885 and $1,372,990, respectively.

(2) Summary of Significant Accounting Policies, Continued

Operating and Nonoperating Revenues and Expenses

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

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

Pensions

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Compensated Absences

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

(2) Summary of Significant Accounting Policies, Continued

Taxes

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

New Accounting Standards

During the year ended September 30, 2018, PPUC implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

- GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

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

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61,* which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

Reclassification

Certain reclassification has been made to the 2017 financial statements to correspond with the 2018 financial statements presentation.

(3) Cash and Cash Equivalents

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

As of September 30, 2018 and 2017, cash and cash equivalents were $11,598,369 and $12,389,404, respectively, and the corresponding bank balances were $12,989,415 and $13,308,112, respectively, that are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018 and 2017, bank deposits of $750,000 were FDIC insured. PPUC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage and deposits in financial institutions not subject to FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

(4) Grants

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

Grants received for the years ended September 30, 2018 and 2017 are as follows:

	2018	2017
U.S. Federal Government	$ 45,000	$ 42,000
Japan Government	5,173,965	10,318,720
	$ 5,218,965	$ 10,360,720

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

(5) Receivable from a Local Bank

At September 30, 2018 and 2017, PPUC has uninsured deposits of $1,974,856 with a bank that went into receivership on November 7, 2006. These deposits were fully provided with an allowance at September 30, 2018 and 2017.

(6) Inventory

Inventory at September 30, 2018 and 2017, consists of the following:

	2018	2017
Generation parts and supplies	$ 6,009,601	$ 6,240,394
Fuel	2,023,171	1,989,386
Lubricants	63,295	34,499
Chemicals	311,112	187,356
Water distribution parts and supplies	336,513	370,450
	8,743,692	8,822,085
Allowance for slow moving and obsolete inventory	(529,994)	(460,883)
	$ 8,213,698	$ 8,361,202

An allowance for slow moving and obsolete inventory of $497,841 and $414,135 at September 30, 2018 and 2017, respectively, was provided for generation parts and supplies inventory maintained in the Aimeliik power plant that caught fire in November 2011.

(7) Utility Plant

Utility plant consists of the following detailed balances at September 30, 2018 and 2017:

	Estimated Useful Lives	Balance at October 1, 2017	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2018
Depreciable utility plant:					
Electric plant	3 - 25 years	$ 41,444,057	$ 1,809,204	$ (25,429)	$ 43,227,832
Water system	20 years	24,059,524	17,423,803	-	41,483,327
Sewer system	20 years	20,688,409	-	-	20,688,409
General support equipment	2 - 30 years	26,017,507	1,622,133	(128,446)	27,511,194
Administrative equipment	2 - 10 years	691,433	26,495	-	717,928
		112,900,930	20,881,635	(153,875)	133,628,690
Less accumulated depreciation		(69,586,265)	(4,823,183)	148,791	(74,260,657)
		43,314,665	16,058,452	(5,084)	59,368,033
Non-depreciable utility plant:					
Construction in progress		21,511,564	15,798,845	(20,360,265)	16,950,144
		$ 64,826,229	$ 31,857,297	$ (20,365,349)	$ 76,318,177

	Estimated Useful Lives	Balance at October 1, 2016	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2017
Depreciable utility plant:					
Electric plant	3 - 25 years	$ 42,055,119	$ 24,250	$ (635,312)	$ 41,444,057
Water system	20 years	23,476,417	583,107	-	24,059,524
Sewer system	20 years	20,688,409	-	-	20,688,409
General support equipment	2 - 30 years	24,585,333	1,463,014	(30,840)	26,017,507
Administrative equipment	2 - 10 years	624,432	124,214	(57,213)	691,433
		111,429,710	2,194,585	(723,365)	112,900,930
Less accumulated depreciation		(65,708,662)	(4,430,915)	553,312	(69,586,265)
		45,721,048	(2,236,330)	(170,053)	43,314,665
Non-depreciable utility plant:					
Construction in progress		3,855,531	19,110,558	(1,454,525)	21,511,564
		$ 49,576,579	$ 16,874,228	$ (1,624,578)	$ 64,826,229

(8) Long-Term Debt

	2018	2017
On September 4, 2006, PPUC entered into a loan with a foreign bank not to exceed $7,000,000 with interest at 3.5% per annum, due on December 11, 2026, to finance the purchase of portable generators, a crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators. The loan is guaranteed by the Republic of Palau and is to be repaid in thirty-five consecutive semi-annual principal installments of $200,000 plus interest; the first installment being repaid on the last day of the thirty-sixth month from the date of the initial advance and thereafter semi-annually on the last day of each successive six-month period, until fully paid.	$ 3,400,000	$ 3,800,000

(8) Long-Term Debt, Continued

	2018	2017
On April 21, 2010, PPUC entered into a loan with a development bank, an affiliated organization, for $3,000,000 to finance the purchase of two generator sets. The loan is due on April 21, 2025 and is collateralized by the generator sets inclusive of auxiliary equipment. The loan bears interest of 7.5% per annum and is to be repaid monthly beginning January 30, 2011 in principal and interest payments of $27,810. Payment of interest during the eight month grace period was spread over twelve months with an equal payment of $12,500 per month beginning January 30, 2011.	1,745,955	2,062,034
On March 28, 2014, PPUC entered into two loans with the ROP to finance sanitation projects in the Koror and Airai areas. The first loan is for $26,900,000 for twenty years with grace period and bears interest equal to the sum of LIBOR plus 0.60% and a maturity premium of 0.10%. Principal is to be repaid semi-annually beginning April 1, 2018 at 2.5% of the total principal amount outstanding on each payment date. The second loan is for 1,258,000 Special Drawing Rights for twenty years with grace period and bears interest at 1% per annum during the period prior to the first principal payment date and 1.5% per annum thereafter. Principal is to be repaid in semi-annual installments of $37,040 beginning April 1, 2021. The loans are guaranteed by the Republic of Palau.	13,290,735	6,159,378
On November 4, 2016, PPUC entered into a non-interest bearing loan with the Koror State Government for $300,000 to finance the acquisition of sewer pumps and parts for the State of Koror. The loan is to be repaid in monthly installments of $10,000 beginning December 15, 2016.	80,000	200,000
Total long-term debt	18,516,690	12,221,412
Less current maturities	(1,304,886)	(833,601)
	$ 17,211,804	$ 11,387,811

(8) Long-Term Debt, Continued

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

Year Ending September 30,	Principal	Interest	Total
2019	$ 1,304,886	$ 592,311	$ 1,897,197
2020	1,240,871	579,678	1,820,549
2021	1,295,291	528,120	1,823,411
2022	1,350,784	482,518	1,833,302
2023	1,371,179	428,586	1,799,765
2024 - 2028	5,360,234	1,440,204	6,800,438
2029 - 2033	3,440,369	836,407	4,276,776
2034 - 2038	3,132,899	339,598	3,472,497
2039	20,177	142	20,319
	$ 18,516,690	$ 5,227,564	$ 23,744,254

Movements in long-term liabilities for the years ended September 30, 2018 and 2017, are as follows:

	Balance at October 1, 2017	Additions	Repayments	Balance at September 30, 2018	Balance Due in One Year
Long-term debt	$ 12,221,412	$ 7,631,740	$ (1,336,462)	$ 18,516,690	$ 1,304,886
Net pension liability	16,006,220	2,048,160	-	18,054,380	-
	$ 28,227,632	$ 9,679,900	$ (1,336,462)	$ 36,571,070	$ 1,304,886

	Balance at October 1, 2016	Additions	Repayments	Balance at September 30, 2017	Balance Due in One Year
Long-term debt	$ 8,344,194	$ 4,449,152	$ (571,934)	$ 12,221,412	$ 833,601
Net pension liability	13,674,468	2,331,752	-	16,006,220	-
	$ 22,018,662	$ 6,780,904	$ (571,934)	$ 28,227,632	$ 833,601

(9) Retirement Fund

A. General Information About the Pension Plan:

Plan Description:

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

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

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

Membership:

The ROP National Government, ROP State Governments and ROP public corporations, quasi-governmental organizations and other public entities of the National and State Governments of ROP, are participating in the Fund. Membership consisted of the following as of September 30, 2017 (the valuation date):

Inactive members currently receiving benefits	1,576
Inactive members entitled to but not yet receiving benefits	1,162
Active members	3,422
Total members	6,160

Summary of the Principal Provisions of the Plan:

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

Eligibility to Participate:

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

Service:

Vesting Service: Includes membership service and prior service credit.

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

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

Pension Benefits:

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

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued:

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

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

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

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

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

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued:

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

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

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

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

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

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

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

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

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

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued:

accrued benefit and shall be paid in the same form as a normal retirement benefit. Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

Member Contributions:

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

Employer and Other Contributions:

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

PPUC contributed $276,420, $234,572 and $201,827 to the Fund during the fiscal years 2018, 2017 and 2016, respectively, which was equal to the required statutory contributions for the respective years then ended.

Actuarial Assumptions:

The total pension liability was determined by an actuarial valuation as of September 30, 2017, for the same measurement date, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method
Amortization Method:	Level dollar, open with remaining amortization period of 30 years
Asset Valuation Method:	Market value of assets
Investment Income:	7.5% per year, net of investment expenses, including price inflation

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued:

Inflation:	3.0%
Interest on Member Contributions:	5.0% per year
Salary Increase:	3.0% per year
Expenses:	$300,000 each year
Mortality:	RP 2000 Combined Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years
Termination of Employment:	5% for ages 20 to 39; none for all other ages

Disability:

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

Retirement Age:	100% at age 60
Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor
Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.
Duty vs Non-duty related disability:	100% Duty related
Refund of Contributions:	80% of terminated vested members elect a refund of contributions
Post Retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death.
Final Average Earnings:	Deferred vested members missing data for their final average earnings are assumed to have earned the average amount of current deferred vested members.

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued:

Benefits: Retirees and beneficiaries missing data for their monthly benefit amount are assumed to receive the average benefit of current retirees or beneficiaries, respectively.

Investment Rate of Return:

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

As of September 30, 2017, the arithmetic real rates of return for each major investment class are as follows:

Asset Class	Target Allocation	Expected Rate of Return
Cash	3%	4.55%
Equity	61%	6.35%
Governmental fixed income	31%	7.75%
Corporate fixed income	5%	4.00%
	100%	

Discount Rate:

The discount rate used to measure the total pension liability was 3.62% at the current measurement date and 2.98% at the prior measurement date. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2022 for the 2017 measurement date. For years on or after 2022, a discount rate of 3.57% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index Rate.

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

The following presents PPUC's proportionate share of the net pension liability of the Fund as of September 30, 2017, calculated using the discount rate of 3.62% as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (2.62%) or 1.00% higher (4.62%) from the current rate.

	1% Decrease 2.62%	Current Single Discount Rate Assumption 3.62%	1% Increase 4.62%
EPO	$ 12,349,861	$ 10,665,306	$ 9,267,549
WWO	8,556,158	7,389,074	6,420,688
	$ 20,906,019	$ 18,054,380	$ 15,688,237

(9) Retirement Fund, Continued

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

Pension Liability:

As of September 30, 2018 and 2017, PPUC's proportionate share of the ROP net pension liability and PPUC's proportion of the ROP overall liability is as follows:

	Proportionate share of the net pension liability	Proportion of the overall liability
2018:		
EPO	$ 10,665,306	4.11%
WWO	7,389,074	2.85%
	$ 18,054,380	
2017:		
EPO	$ 9,010,791	3.61%
WWO	6,995,429	2.80%
	$ 16,006,220	

Pension Expense:

For the years ended September 30, 2018 and 2017, PPUC recognized pension expense as follows:

	2018	2017
EPO	$ 696,083	$ 334,740
WWO	523,346	409,933
	$ 1,219,429	$ 744,673

Deferred Outflows and Inflows of Resources:

At September 30, 2018 and 2017, PPUC reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
EPO:				
Changes of assumptions	$ 1,247,088	$ 1,010,348	$ 1,380,997	$ 213,093
Net difference between projected and actual earnings on pension plan investments	58,718	52,120	77,379	17,516
Difference between expected and actual experience	981,821	208,453	-	230,949
Contributions subsequent to the measurement date	154,508	-	126,710	-
Changes in proportion and difference between EPO contributions and proportionate share of contributions	945,744	360,181	-	495,901
	3,387,879	1,631,102	1,585,086	957,459

(9) Retirement Fund, Continued

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

Deferred Outflows and Inflows of Resources, Continued:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
WWO:				
Changes of assumptions	864,000	699,983	1,072,122	165,432
Net difference between projected and actual earnings on pension plan investments	40,681	36,109	60,072	13,598
Difference between expected and actual experience	680,219	144,419	-	179,295
Contributions subsequent to the measurement date	121,912	-	107,862	-
Changes in proportion and difference between WWO contributions and proportionate share of contributions	467,953	343,956	575,079	500,299
	2,174,765	1,224,467	1,815,135	858,624
	$ 5,562,644	$ 2,855,569	$ 3,400,221	$ 1,816,083

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2018 will be recognized in pension expense as follows:

Year Ending September 30,	
EPO:	
2019	$ 203,960
2020	359,913
2021	293,525
2022	291,991
2023	304,945
Thereafter	147,935
	1,602,269
WWO:	
2019	182,397
2020	115,514
2021	162,307
2022	180,418
2023	159,738
Thereafter	28,012
	828,386
	$ 2,430,655

(10) Related Party Transactions

Sale of Utility Services

Utility services of $6,177,355 and $5,375,942 were rendered to the ROP for the years ended September 30, 2018 and 2017, respectively. PPUC provides utility services to the ROP at the same rates charged to third parties.

Receivables of $425,072 and $544,975 (excluding unbilled receivables of $319,164 and $376,920 as of September 30, 2018 and 2017, respectively) are due from the ROP for utility services as of September 30, 2018 and 2017, respectively, and are included in the receivable from affiliate in the accompanying statements of net position. Of these receivables, $126,659 and $148,050 as of September 30, 2018 and 2017, respectively, have been outstanding for more than ninety days.

Loans from the ROP

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

Merger of WWO

As part of the transfer agreement of the WWO (see note 1), the ROP was to transfer all grants, appropriations and authorized loan proceeds to PPUC to cover WWO operating costs. For the years ended September 30, 2018 and 2017, PPUC recognized $1,695,000 and $0, respectively, of WWO operating subsidies from the ROP.

Others

In October 2007, PPUC entered into a Maintenance Agreement with the National Government of Palau for a period of ten years in line with the ROP's utilization of alternative energy technology to reduce dependence on petroleum based fuel products through the installation of solar photovoltaic systems (PV systems). Under the agreement, the National Government shall provide necessary equipment, execute all documents required for receipt of the project resources, and coordinate with the contractor. The ROP shall also pay PPUC the energy charge produced by the PV systems and PPUC shall in turn use the payment for maintenance, repair and replacement of components of the PV systems. However, any excess cost incurred in the maintenance, repair and replacement of the PV system shall be borne by the ROP. For the year ended September 30, 2017, the energy charge incurred by the ROP was $11,584. The agreement was terminated in October 2017.

PPUC has transactions with Palau Telecoms, a company owned by a former board member, for communication services. Commencing June 1, 2016, PPUC and Palau Telecoms entered into a service agreement allowing Palau Telecoms to use PPUC's fiber optic cables in exchange for communication services. Palau Telecoms also pays a monthly power pole rent to PPUC of $2,156. PPUC recorded approximately $19,000 and $24,000 of power pole rent from Palau Telecoms during the years ended September 30, 2018 and 2017, respectively.

PPUC also has transactions with KJI and Associates, a company owned by a senior manager who served in that capacity, for equipment rental and equipment purchased totaling $71,700 during the year ended September 30, 2017.

(11) Commitments

Lease

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

Fuel Supply

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

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

Capital Commitments

As of September 30, 2018, PPUC has various on-going construction contracts with a total contract price of $24 million of which $16 million is recorded as construction in progress.

(12) Contingencies

Self Insurance

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

Utility Charge Credits

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

Litigation

PPUC is involved in various legal proceedings arising in the normal course of business. It is the opinion of management, after consulting with its legal counsel, that the ultimate disposition of such legal proceedings will not have a material adverse effect on the financial statements, and therefore no provision has been recorded for potential impact of these contingencies.

(12) Contingencies, Continued

Pension Plan Net Position

The Republic of Palau Civil Service Pension Trust Fund's actuarial valuation has determined that the Fund's fiduciary net position will be negative by 2022 if no changes are made in contribution and/or benefits.

Legislation

RPPL 10-26, signed into law in June 2018, restricts PPUC's ability to increase its electricity tariffs until October 1, 2019.

(13) Risk Management

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

(14) Dependency on the Republic of Palau

WWO incurred an operating loss of $3,603,883 and $1,923,213 for the years ended September 30, 2018 and 2017, respectively. PPUC will continue to depend on ROP subsidies until the WWO has achieved a full cost recovery as mandated by the RPPL 9-4.

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

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

	2018	2017	2016	2015	2014
Total Republic of Palau net pension liability	$ 259,395,005	$ 249,453,960	$ 215,546,176	$ 204,281,232	$ 182,080,332
PPUC's proportionate share of the net pension liability	$ 18,054,380	$ 16,006,220	$ 13,674,468	$ 13,135,896	$ 12,920,967
PPUC's proportion of the net pension liability	6.96%	6.42%	6.34%	6.43%	7.10%
PPUC's covered-employee payroll**	$ 4,032,283	$ 3,398,382	$ 3,076,703	$ 3,022,976	$ 2,964,580
PPUC's proportionate share of the net pension liability as percentage of its covered employee payroll	447.75%	471.00%	444.45%	434.54%	435.84%
Plan fiduciary net position as a percentage of the total pension liability	10.18%	10.55%	11.54%	14.01%	16.00%

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

See Accompanying Independent Auditors' Report.

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

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

	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 1,195,686	$ 925,093	$ 691,501	$ 683,121	$ 714,295
Contribution in relation to the actuarially determined contribution	241,937	201,110	183,373	178,010	178,540
Contribution deficiency	$ 953,749	$ 723,983	$ 508,128	$ 505,111	$ 535,755
PPUC's covered-employee payroll **	$ 4,032,283	$ 3,398,382	$ 3,076,703	$ 3,022,976	$ 2,964,580
Contribution as a percentage of covered-employee payroll	6.00%	5.92%	5.96%	5.89%	6.02%

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

See Accompanying Independent Auditors' Report.

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

Combining Statement of Net Position
September 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Utility plant:				
Depreciable utility plant	$ 33,882,181	$ 25,485,852	$ -	$ 59,368,033
Non-depreciable utility plant	979,358	15,970,786	-	16,950,144
Net utility plant	34,861,539	41,456,638	-	76,318,177
Current assets:				
Cash and cash equivalents	8,628,778	2,969,591	-	11,598,369
Receivables:				
Trade	2,713,123	1,346,560	-	4,059,683
Affiliate	3,293,522	112,200	(2,796,800)	608,922
Contracts	73,709	51,771	-	125,480
Other	27,459	7,068	-	34,527
	6,107,813	1,517,599	(2,796,800)	4,828,612
Less allowance for doubtful accounts	(983,554)	(805,433)	-	(1,788,987)
Net receivables	5,124,259	712,166	(2,796,800)	3,039,625
Prepaid expenses	235,701	272,699	-	508,400
Inventory, net	7,566,073	647,625	-	8,213,698
Total current assets	21,554,811	4,602,081	(2,796,800)	23,360,092
Other non-current assets:				
Contracts receivable, net of current portion	176,812	129,647	-	306,459
Total assets	56,593,162	46,188,366	(2,796,800)	99,984,728
Deferred outflows of resources from pension	3,387,879	2,174,765	-	5,562,644
	$ 59,981,041	$ 48,363,131	$ (2,796,800)	$ 105,547,372

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Net position:				
Net investment in utility plant	$ 31,483,584	$ 28,085,903	$ -	$ 59,569,487
Unrestricted	4,614,502	(7,933,576)	-	(3,319,074)
Total net position	36,098,086	20,152,327	-	56,250,413
Commitments and contingencies				
Current liabilities:				
Current portion of long-term debt	609,946	694,940	-	1,304,886
Accounts payable	4,105,493	5,672,594	(2,796,800)	6,981,287
Accrued expenses	480,588	428,186	-	908,774
Grant advances	786,762	-	-	786,762
Customer deposits	1,067,749	125,748	-	1,193,497
Total current liabilities	7,050,538	6,921,468	(2,796,800)	11,175,206
Long-term debt, net of current portion	4,536,009	12,675,795	-	17,211,804
Net pension liability	10,665,306	7,389,074	-	18,054,380
Total liabilities	22,251,853	26,986,337	(2,796,800)	46,441,390
Deferred inflows of resources from pension	1,631,102	1,224,467	-	2,855,569
	$ 59,981,041	$ 48,363,131	$ (2,796,800)	$ 105,547,372

See accompanying independent auditors' report.

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

Combining Statement of Revenues, Expenses and Change in Net Position
Year Ended September 30, 2018

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Operating revenues:				
Power	$ 22,113,066	$ -	$ (2,171,992)	$ 19,941,074
Water	-	3,514,106	(18,098)	3,496,008
Wastewater	-	2,101,754	-	2,101,754
Other	1,100,992	374,341	-	1,475,333
Total operating revenues	23,214,058	5,990,201	(2,190,090)	27,014,169
Provision for uncollectible receivables	(119,023)	(587,579)	-	(706,602)
Net operating revenues	23,095,035	5,402,622	(2,190,090)	26,307,567
Operating expenses:				
Generation - fuel	14,025,809	-	-	14,025,809
Depreciation	2,975,565	1,847,618	-	4,823,183
Generation - other cost	3,628,925	-	(11,122)	3,617,803
Administration	1,805,199	1,171,706	(55,525)	2,921,380
Distribution and transmission	1,590,335	-	(23,823)	1,566,512
Engineering services	770,393	-	(7,945)	762,448
Renewable energy	232,132	-	(7,945)	224,187
Water operations	-	4,367,047	(1,693,524)	2,673,523
Wastewater operations	-	1,620,134	(390,206)	1,229,928
Total operating expenses	25,028,358	9,006,505	(2,190,090)	31,844,773
Operating loss	(1,933,323)	(3,603,883)	-	(5,537,206)
Nonoperating revenues (expenses):				
Operating subsidies from the Republic of Palau	-	1,695,000	-	1,695,000
Grants	26,100	18,900	-	45,000
Interest income	2,210	709	-	2,919
Interest expense	(271,574)	(153,083)	-	(424,657)
Loss on disposal of utility plant	(27,660)	(718)	-	(28,378)
Others	3,650	3,353	-	7,003
Total nonoperating revenues (expenses), net	(267,274)	1,564,161	-	1,296,887
Loss before capital contributions	(2,200,597)	(2,039,722)	-	(4,240,319)
Capital contribution:				
Grants from the Japan Government	-	5,173,965	-	5,173,965
Capital contributions from the Republic of Palau	65,769	19,939	-	85,708
Change in net position	(2,134,828)	3,154,182	-	1,019,354
Net position at beginning of year	38,232,914	16,998,145	-	55,231,059
Net position at end of year	$ 36,098,086	$ 20,152,327	$ -	$ 56,250,413

See accompanying independent auditors' report.

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

Combining Statement of Cash Flows
Year Ended September 30, 2018

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Cash flows from operating activities:				
Cash received from customers	$ 23,842,775	$ 5,703,449	$ (2,190,090)	$ 27,356,134
Cash payments to suppliers for goods and services	(17,876,070)	(3,452,305)	2,190,090	(19,138,285)
Cash payments to employees for services	(3,345,821)	(2,516,365)	-	(5,862,186)
Net cash provided by (used in) operating activities	2,620,884	(265,221)	-	2,355,663
Cash flows from investing activities:				
Interest income	2,210	709	-	2,919
Cash flows from non-capital financing activities:				
Appropriations received from the Republic of Palau	-	1,695,000		1,695,000
Cash received from grantor agencies	26,100	209,900	-	236,000
Net cash provided by non-capital activities	26,100	1,904,900	-	1,931,000
Cash flows from capital and related financing activities:				
Proceeds from issuance of long-term debt	-	7,631,740	-	7,631,740
Principal payment on long-term debt	(716,079)	(620,383)	-	(1,336,462)
Interest paid on long-term debt	(276,564)	(153,081)	-	(429,645)
Advances from the Republic of Palau	200,000	-	-	200,000
Acquisition of utility plant	(1,570,019)	(9,576,231)	-	(11,146,250)
Net cash used in capital and related financing activities	(2,362,662)	(2,717,955)	-	(5,080,617)
Net change in cash and cash equivalents	286,532	(1,077,567)	-	(791,035)
Cash and cash equivalents at beginning of year	8,342,246	4,047,158	-	12,389,404
Cash and cash equivalents at end of year	$ 8,628,778	$ 2,969,591	$ -	$ 11,598,369
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating loss	$ (1,933,323)	$ (3,603,883)	$ -	$ (5,537,206)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation	2,975,565	1,847,618	-	4,823,183
Provision for uncollectible receivables	119,023	587,579	-	706,602
Pension expense	525,365	399,858	-	925,223
(Increase) decrease in assets:				
Receivables:				
Trade	210,339	(394,996)	-	(184,657)
Affiliate	310,137	54,222	(297,506)	66,853
Contracts	31,158	19,162	-	50,320
Other	(1,518)	(6,091)	-	(7,609)
Prepaid expenses	(45,649)	(249,637)	-	(295,286)
Inventory	240,971	(89,818)	-	151,153
Increase (decrease) in liabilities:				
Accounts payable	49,170	1,084,309	297,506	1,430,985
Accrued expenses	61,046	45,505	-	106,551
Grant advances from the Republic of Palau	(30,352)	-	-	(30,352)
Customer deposits	108,952	40,951	-	149,903
Net cash provided by (used in) operating activities	$ 2,620,884	$ (265,221)	$ -	$ 2,355,663

See accompanying independent auditors' report.

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

Schedule of Revenues and Expenses (Before Eliminations)
Year Ended September 30, 2018

	Electric Power Operations	Water and Wastewater Operations
Operating revenues:		
Commercial	$ 8,662,653	$ 2,799,597
Residential	6,484,142	2,284,853
Government	1,141,628	178,698
Republic of Palau and component units	5,824,643	352,712
Other	1,100,992	374,341
	$ 23,214,058	$ 5,990,201
Operating expenses:		
Personnel costs:		
Salaries and wages	$ 2,912,861	$ 2,200,710
Employee benefits	429,705	326,486
Other employee benefits	64,301	34,674
Pension expense adjustment - GASB 68	525,365	399,859
Total personnel costs	3,932,232	2,961,729
Generation - fuel	14,025,809	-
Depreciation	2,975,565	1,847,618
Repairs and maintenance	2,750,614	1,169,907
Utilities	86,720	2,103,370
Small tools and equipment	157,170	81,244
Professional services	146,868	73,638
Gas and oil	143,789	73,840
Insurance	117,405	51,233
Supplies	93,635	56,607
Communication	51,577	27,242
Rent	37,983	30,499
Water treatment chemicals	-	294,571
Others	508,991	235,007
	$ 25,028,358	$ 9,006,505

See accompanying independent auditors' report.