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

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

(RESTATED)

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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, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palau Public Utilities Corporation as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 15 to the financial statements, the 2016 financial statements have been restated to record grants received in 2017 that relate to 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 20 as well as the Schedule of Proportional Share of the Net Pension Liability on page 45 and the Schedule of Pension Contributions on page 46 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 Statements of Cash Flows, and Schedule of Revenues and Expenses on pages 47 through 50 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 Statements 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 Statements 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2018, 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 3, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) presents the Palau Public Utilities Corporation's (the Corporation or PPUC) financial performance during the fiscal year ended September 30, 2017. The analysis will provide the users with the information they need to assist them in assessing whether the Corporation's financial position has improved or deteriorated as result of the current fiscal 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, 2017, 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", etc. Matters discussed in these remarks are subject to risks and changes. The reader should not assume such remarks are guarantees.

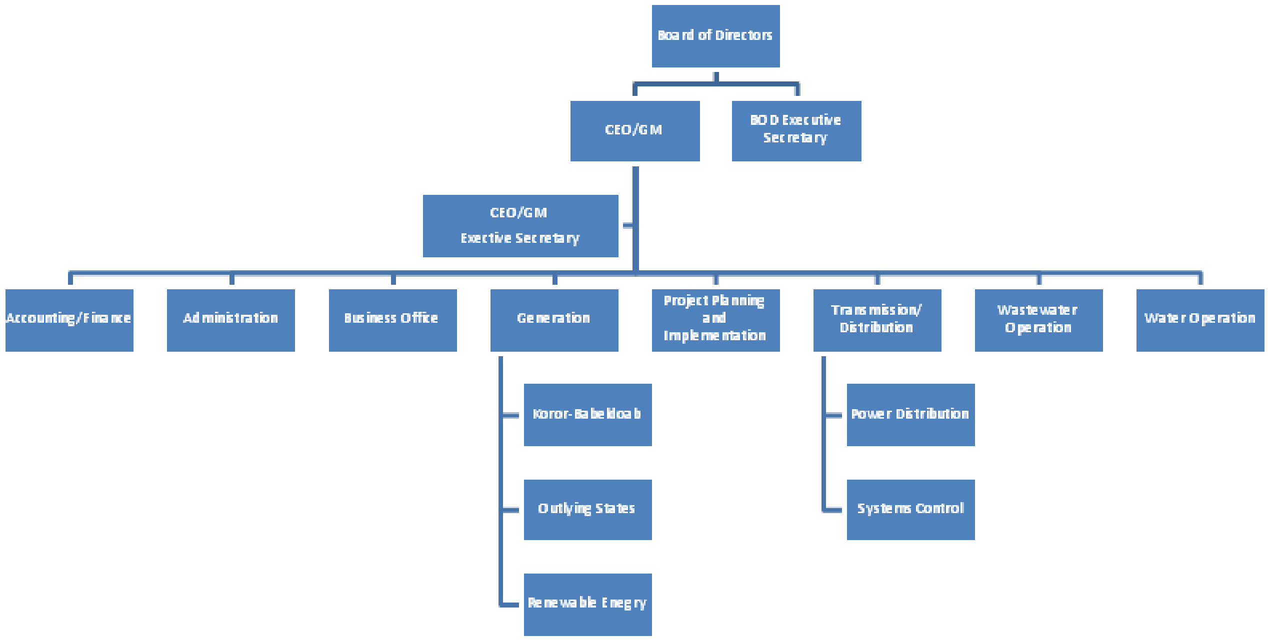
COMPANY OVERVIEW

The Public Utilities Corporation (PUC) was created on July 06, 1994. PUC was mandated by law to plan, develop and execute an electrification plan for the entire Republic. On June 06, 2013, a Republic of Palau law, RPPL No. 9-4, was signed into law that consolidated two independent public corporations, the Palau Water & Sewer Corporation (PWSC) and the Palau Public Utilities Corporation under one identity, the Palau Public Utilities Corporation (PPUC). The intent of the consolidation was to streamline administrative processes and reduce operating costs. It is anticipated that little will change on the operations side, but the administration and the back office processes will be materially affected.

After the merger, about 112 employees from the National Government's water and waste water operation transitioned to PPUC. From an Electrical utility with 149 employees, PPUC now has a total workforce of over 200 employees serving both the electricity and water/waste water operations of the Republic of Palau.

Water and waste water operation is 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 costs and expertise are allocated to the two separate business segments and shall not be utilized to subsidize each other.

An organizational chart was created and adopted by the Board of Directors. The new organizational chart is modified to indicate the merging of shared services. These include the Business Office Department, Information Technology, Procurement, Accounting and Finance, Public Relations, Grants Coordination and Human Resources. Electrical operations and the water and waste water operations remain as separate operations supported by the shared administrative services.



PPUC is overseen by a seven (7) member 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. Ultimately this includes the hiring of a Chief Executive Officer (CEO) with proven ability and skills in the operation of finances, personnel and management of a utility company. The CEO is responsible for the daily operations of PPUC.

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 activities and the corporate performance.

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 basis for computing the investment rate of return, for assessing the liquidity and financial flexibility of the corporation, as well as evaluating the corporate capital structure. The Statement of Revenue, Expenses, and Net Position contains all of the current (2017) fiscal year's revenue and expenses and measures the success of the corporate's operation compare to the prior fiscal year and to show if PPUC successfully recovered all of its cost through the existing tariff and other charges. External grant donors and financial institutions look at this statement to determine profitability of the Corporation. The Statement of Cash Flows provides information on corporate cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities. The Statement provides answers for various questions related to cash management, where did cash come from, what was cash used for, and the net change in cash balance during the fiscal year.

PPUC EPO Financial Highlights

The following table shows the net position of the electrical operation as of September 30, 2015, September 30, 2016 and September 30, 2017:

(Dollars in thousands)

EPO	Sept 30, 2017	Sept 30, 2016 (As Restated)	Sept 30, 2015	Incr (Decr) 2017	Incr (Decr) 2016
Statements of Net Position					
Current assets	$ 22,118	$ 23,638	$ 19,038	$ (1,520)	$ 4,600
Other assets	188	195	263	(7)	(68)
Net utility plant	36,295	35,882	36,825	413	(943)
Total Assets	58,601	59,715	56,126	(1,114)	3,589
Deferred outflows from pension	1,585	843	591	742	252
	$ 60,186	$ 60,558	$ 56,717	$ (372)	$ 3,841
Current liabilities	$ 6,708	$ 6,297	$ 5,728	$ 411	$ 569
Other liabilities	5,277	5,862	6,434	(585)	(572)
Net pension liability	9,011	7,915	7,712	1,096	203
Total Liabilities	20,996	20,074	19,874	922	200
Deferred inflows from pension	957	1,112	877	(155)	235
	$ 21,953	$ 21,186	$ 20,751	$ 767	$ 435
Investment in capital assets	$ 32,409	$ 31,632	$ 32,224	$ 777	(592)
Unrestricted	5,824	7,740	3,742	(1,916)	3,998
Total Net Position	$ 38,233	$ 39,372	$ 35,966	$ (1,139)	$ 3,406

The assets and deferred outflows exceeded liabilities and deferred inflows by $38.2 million and $39.3 million as of September 30, 2017 and 2016, respectively.

The EPO net operating income has varied between positive and negative in the past three years. This is mainly due to the application of Automatic Fuel Price Adjustment Clause (AFPAC) methodology that calculate the fuel charge recovered from the customer on a quarterly basis and the fuel cost is fluctuate depending on the world oil prices.

The following table shows the revenues, expenses and changes in net position of the electrical operation for the last three fiscal years ended September 30, 2015 through September 30, 2017:

(Dollars in thousands)

EPO	Sept 30, 2017	Sept 30, 2016 (As Restated)	Sept 30, 2015	Incr (Decr) 2017	Incr (Decr) 2016
Revenues, Expenses, and Changes in Net Position					
Operating Revenues:					
Electric	$ 19,523	$ 19,807	$ 21,057	$ (284)	$ (1,250)
Others	999	908	772	91	136
Provision for BD	(124)	(73)	-	(51)	(73)
Nonoperating Revenue/Exp	(450)	1,012	(163)	(1,462)	1,175
Total Revenue	19,948	21,654	21,666	(1,706)	(12)
Operating Expenses:					
Generation fuel	11,521	10,135	14,555	1,386	(4,420)
Generation other costs	3,807	2,436	3,830	1,371	(1,394)
Depreciation	2,727	2,672	2,615	55	57
Admin	1,003	973	856	30	116
D&T	1,379	1,251	935	128	316
Engineering	537	335	496	202	(161)
Renewable energy	244	538	98	(294)	440
Total Operating Expenses	21,218	18,340	23,385	2,878	(5,046)
Capital Contributions	131	92	-	39	92
Change in Net Position	(1,139)	3,406	(1,720)	(4,545)	5,126
Beginning Net Position	39,372	35,966	37,686	3,406	(1,720)
Ending Net Position	$ 38,233	$ 39,372	$ 35,966	$ (1,139)	$ 3,406

The net position decreased by $1.1 million in the fiscal year ended September 30, 2017 but increased by $3.4 million for the fiscal year ended September 30, 2016.

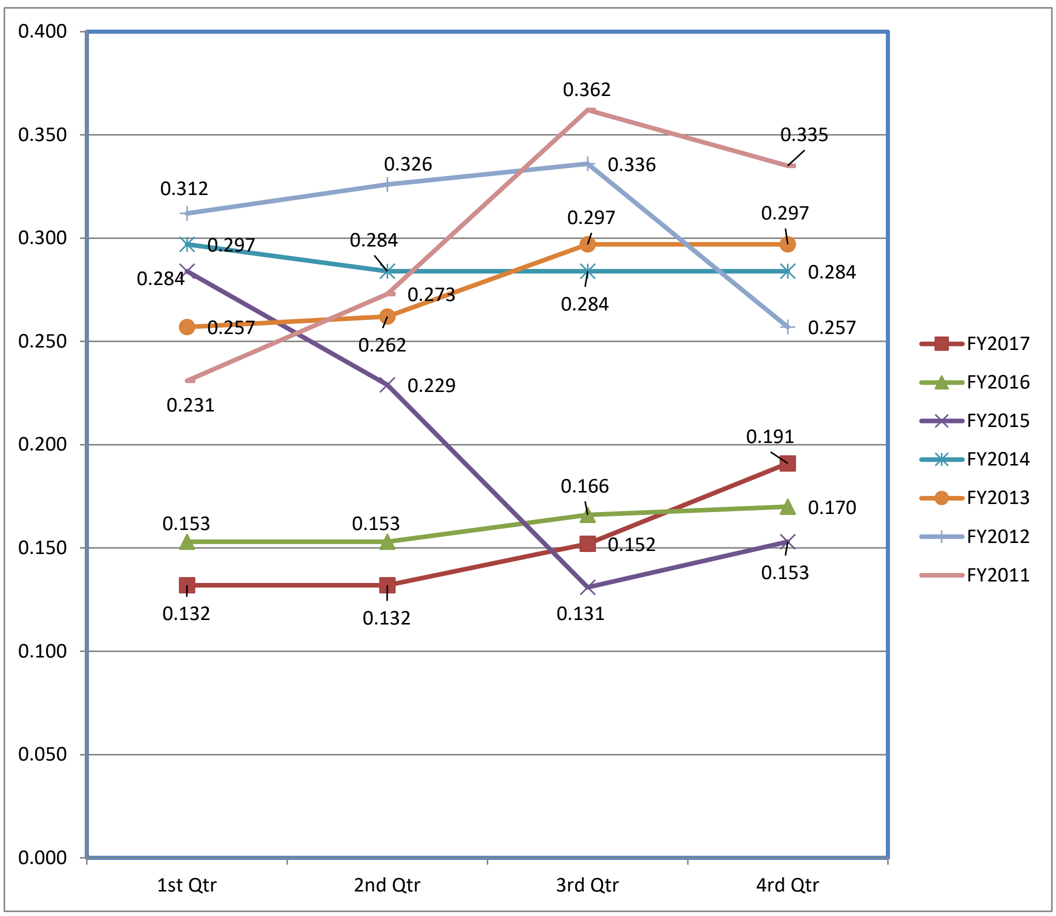
Electric Power Operation Outlook

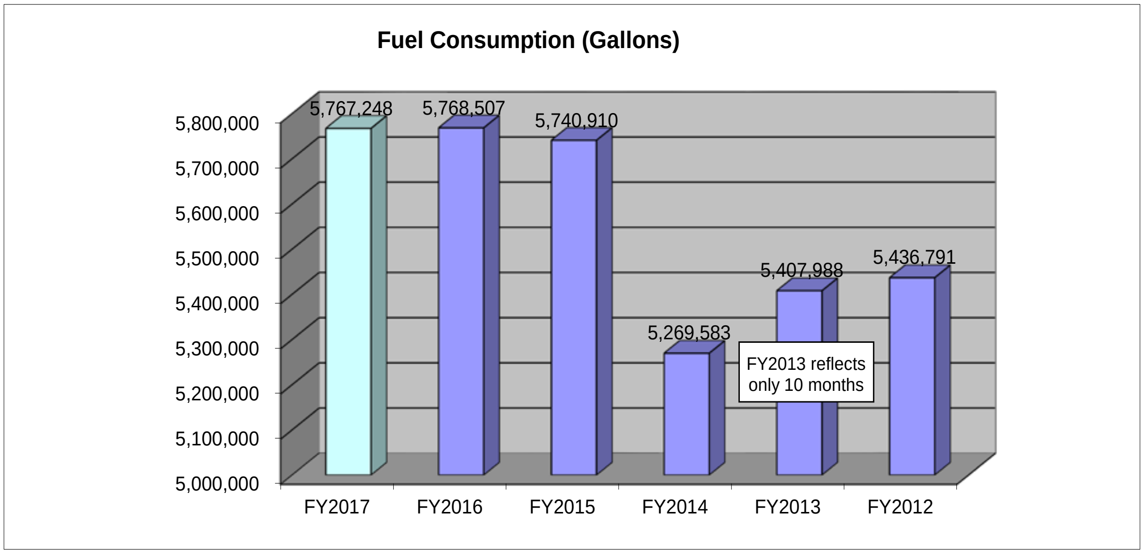
Electric operations (EPO) continue to pursue efficiency gains as an alternative to price increases. Electric operations have managed to hold kilowatt prices to customers at the same level since 2012. This excludes the fuel component, which recovers the cost of fuel paid by PPUC and fluctuates with world oil prices.

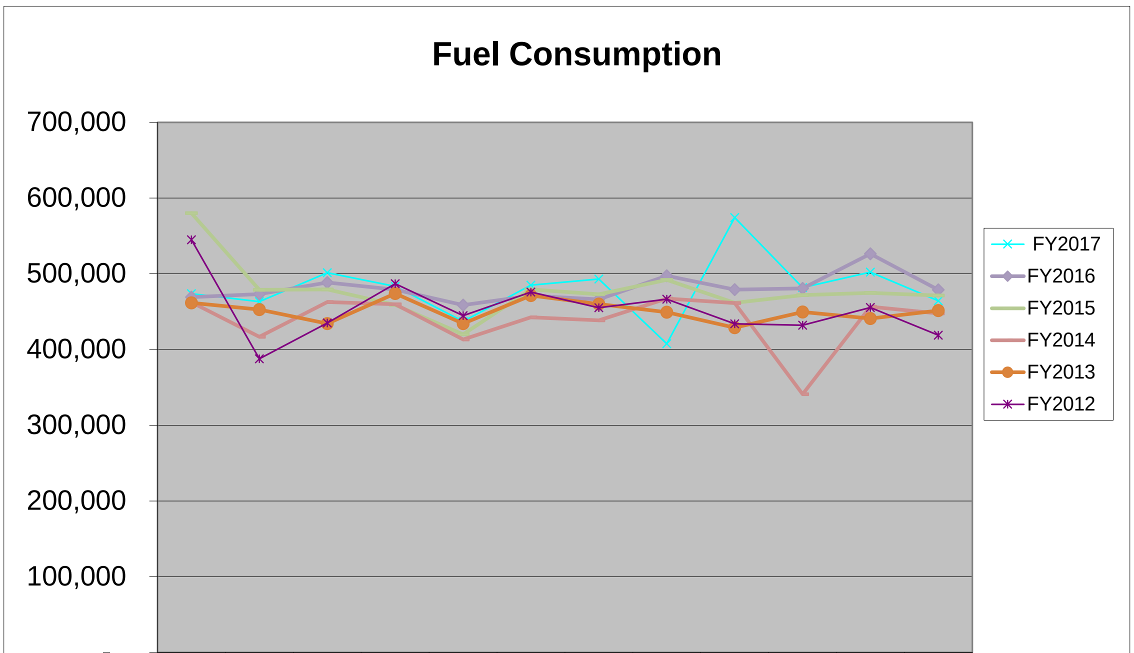
This achievement in price constraint is significant, given the rise in input costs and wage growth over these years. Revenue growth from power consumption by customers is anticipated to be 2% for the 2018 year, reflecting a slight downturn after a substantial increase in 2017. Suprima customers (those using pre-paid meters) continue to increase as a share of total consumption, reflecting the initiative by Electric Operations to assist customer in managing their consumption and budget for power usage, and to reduce payment arrears and outstanding debts to PPUC.

Expenditures are estimated to increase by 3% for the 2018 year, although part of this is attributable to a change in allocation of overhead administrative costs between Electric Operations and Water and Wastewater Operations, which has resulted in a 'one-time' increase in costs to EPO. Of this 3% cost increase, almost half is attributable to an increase in depreciation charges, reflecting the continuing investment in capital improvement across EPO. For remaining expenses, EPO has managed to restrict cost increases to 1% above the previous year.

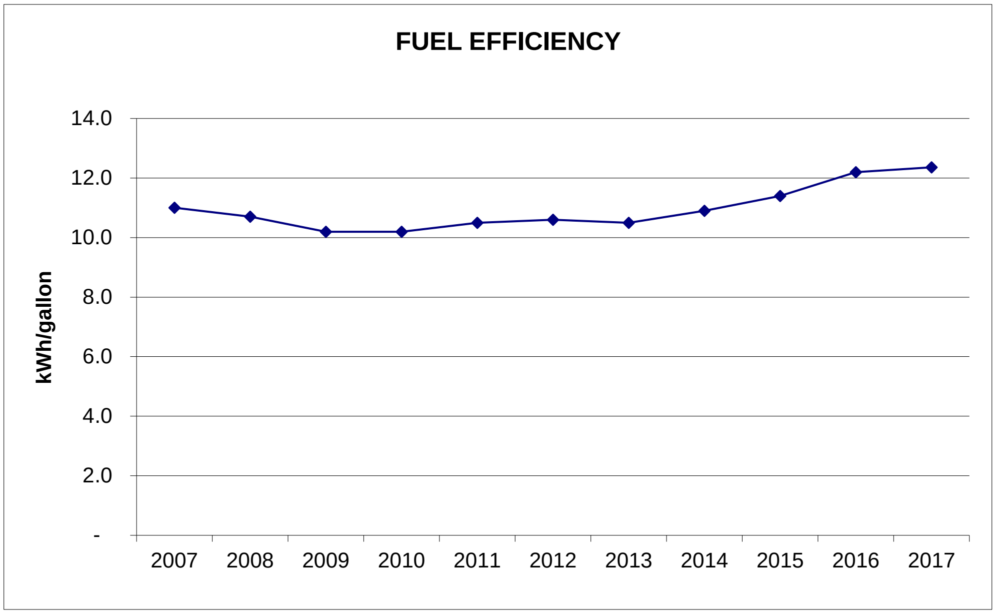
Overall, Electric Operations has managed to generate a slight cash surplus, after adjusting for non-operating revenues and expenses, and adding back depreciation. This continues to reflect PPUC's commitment to achieving recovery of cash costs while holding down charges passed on to customers. In this difficult environment PPUC will continue to pursue efficiencies, constrain costs, and hold tariff rates as low as possible within the limits of responsible financial governance.
The following graphs show electric operation trends:

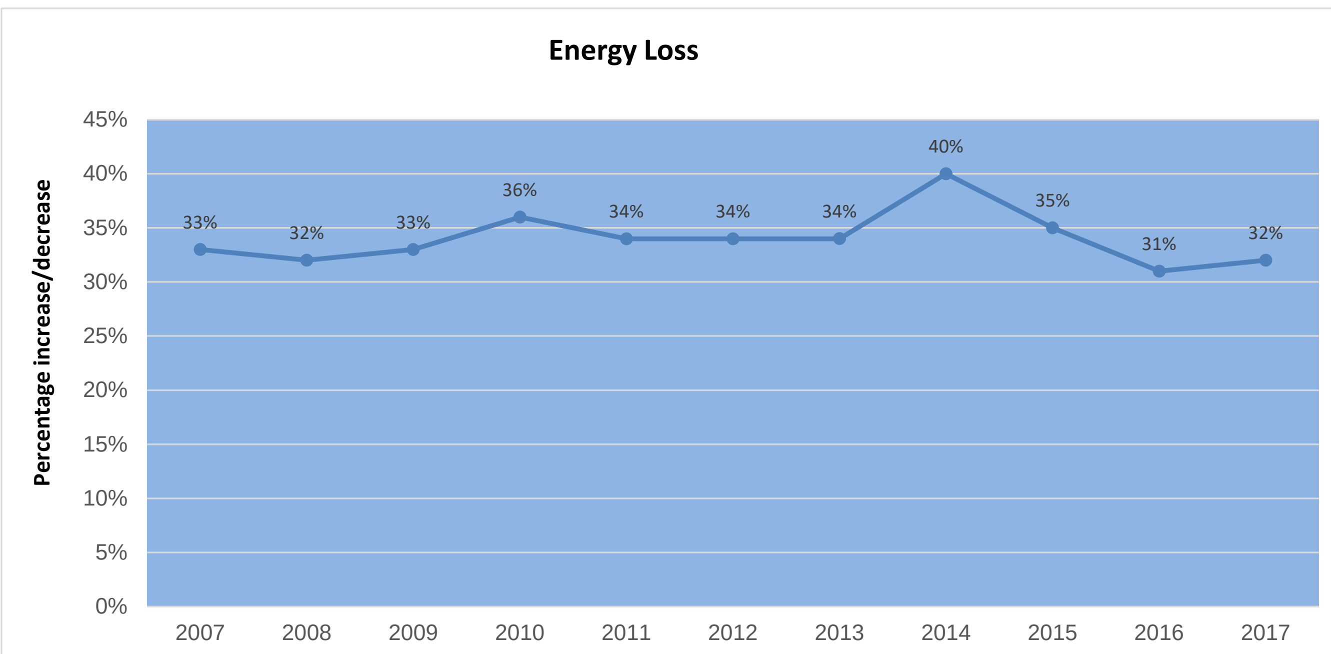


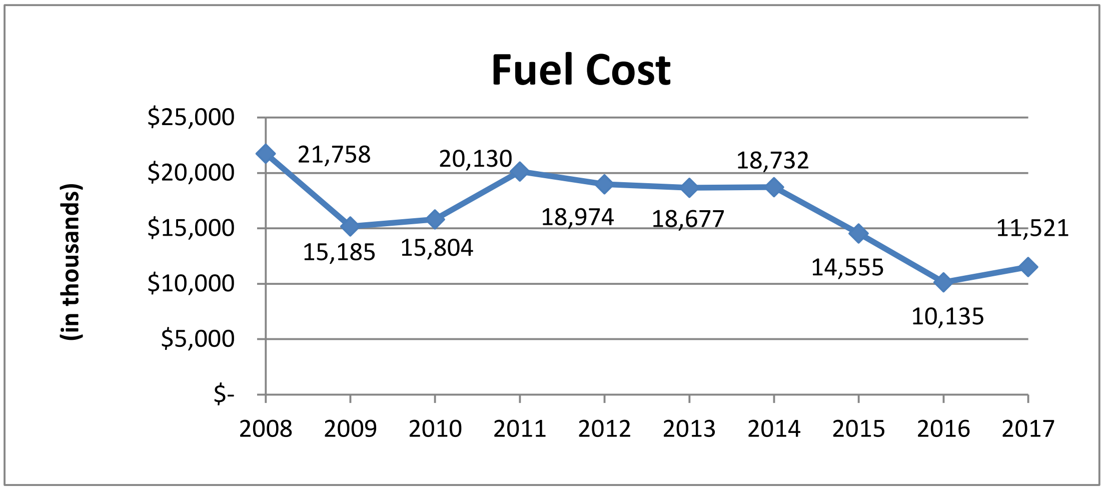


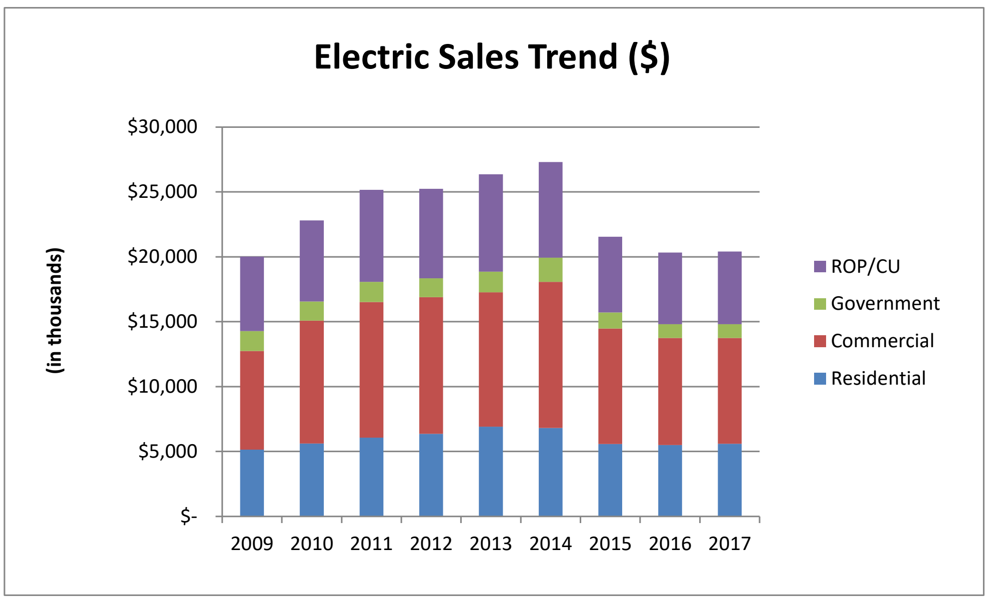


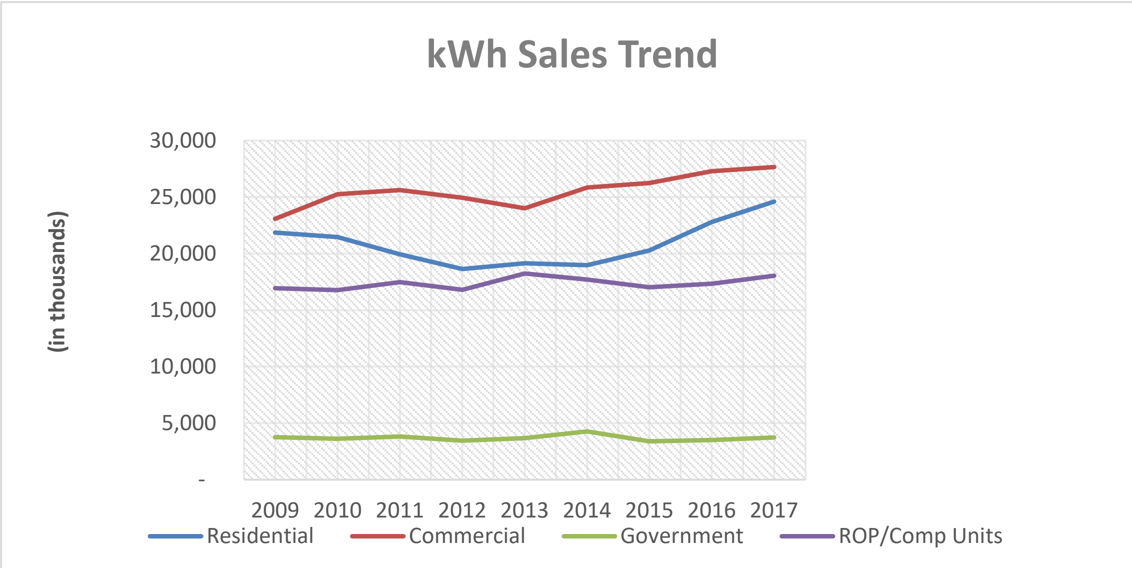
	October	November	December	January	February	March	April	May	June	July	August	September
FY2017	473,656	463,140	501,317	483,487	437,243	485,070	493,123	407,568	574,144	481,891	502,228	464,383
FY2016	469,251	473,120	488,564	479,182	458,725	471,016	466,083	497,471	479,110	480,777	526,352	478,856
FY2015	580,092	478,784	479,449	459,036	420,056	479,220	472,820	491,953	461,626	471,895	474,727	471,252
FY2014	462,552	416,864	462,684	459,676	413,135	442,561	438,430	467,334	461,256	341,011	456,559	447,521
FY2013	461,708	452,625	434,187	474,056	434,096	471,313	460,041	449,132	428,927	449,536	440,945	451,422
FY2012	544,766	387,771	434,923	486,945	444,686	475,836	455,284	466,441	434,021	432,006	455,339	418,772


FUEL EFFICIENCY
kWh/gallon
14.0
12.0
10.0
8.0
6.0
4.0
2.0
-
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017


Energy Loss
Percentage increase/decrease
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
33%
32%
33%
36%
34%
34%
34%
40%
35%
31%
32%
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017


Fuel Cost
(in thousands)
$25,000
$20,000
$15,000
$10,000
$5,000
$-
21,758
15,185
15,804
20,130
18,974
18,677
18,732
14,555
10,135
11,521
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017


Electric Sales Trend ($)
(in thousands)
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$-
2009
2010
2011
2012
2013
2014
2015
2016
2017
ROP/CU
Government
Commercial
Residential



PPUC's dependence on fossil fuel is likely to continue for several years due to its size and geographic location. The Palau Net Metering Act approved on January 6, 2012 (RPPL No. 8-9) promotes customer based renewable energy generation for customer's own use. The solar usage in proportion to the total kWh consumption increased from 1% in 2016 to 2% in 2017.

Solar kWh Consumption

	FY2017	%	FY2016	FY2015	FY2014
COMM	359,471	32%	349,013	84,087	12,755
GOV'T	179,953	16%	114,471	720	400
ROP	355,409	32%	345,170	329,335	332,775
RES	222,087	20%	106,362	67,004	37,100
Total	1,116,920		915,016	481,146	383,030
Total consumption (kwh)	74,032,697		70,928,766		
	2%		1%		

PPUC Water and Waste Water Operations

Historically the water and wastewater utility was operated by the Bureau of Public Works as a Government Department and PPUC, through the Merger Act, has undertaken management of a water and sewer systems and infrastructure that dates back to 1987. Substantial efforts had preceded the merger that secured long-term soft-loans through the Asian Development Bank (ADB) to finance improvements to the water system, 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).

Below tariff schedule was developed to ensure full cost recovery is achieved and that financial resources are conserved and built up for future maintenance and replacement of systems including investments in capital assets. The tariff schedule is expected to be implemented on October 1 of each fiscal year.

Water Rates Tiers/per 1Kgal	FY14	FY15	FY16	FY17	FY18
Water - Res (0-5K)	$ 1.17	$ 1.47	$ 1.53	$ 1.59	$ 1.65
Water - All Others	$ 1.91	$ 4.51	$ 5.41	$ 6.49	$ 6.75
% Increase - Res (0-5K)		26%	4%	4%	4%
% Increase - All		136%	20%	20%	4%

Sewer Rates Tiers/per 1Kgal	FY14	FY15	FY16	FY17	FY18
Sewer - Res (0-5K)	$ 0.30	$ 0.36	$ 0.38	$ 0.39	$ 0.41
Sewer - All Others	$ 2.21	$ 4.13	$ 4.95	$ 5.94	$ 6.18
% Increase - Res (0-5K)		21%	4%	4%	4%
% Increase - All		87%	20%	20%	4%

PPUC WWO Financial Highlights

The following table shows the net position of the water and wastewater operations for the past three fiscal years ending September 30, 2015 through September 30, 2017. At the end of the fiscal year, total assets increased by $15 million. Further, the total liabilities increased by over $6.7 million. Net position increased by $8.3 million.

(Dollars in thousands)

WWO	Sept 30, 2017	Sept 30, 2016 (As Restated)	Sept 30, 2015	Incr (Decr) 2017	Incr (Decr) 2016
Statement of Net Position					
Current assets	$ 5,804	$ 6,381	$ 4,188	$ (577)	$ 2,193
Other assets	116	-	-	116	-
Net utility plant	28,531	13,694	13,389	14,837	305
Total Assets	34,452	20,075	17,577	14,377	2,498
Deferred outflows from pension	1,815	1,132	1,055	683	77
	36,267	21,207	18,632	15,060	2,575
Current liabilities	5,304	3,764	4,323	1,540	(559)
Other liabilities	6,111	1,910	987	4,201	923
Net pension liability	6,995	5,759	5,424	1,236	335
Total Liabilities	18,410	11,433	10,734	6,977	699
Deferred inflows from pension	859	1,099	1,140	(240)	(41)
	19,269	12,532	11,874	6,737	658
Investment in capital assets	22,172	11,784	12,402	10,388	(618)
Unrestricted	(5,174)	(3,109)	(5,644)	(2,065)	2,535
Total Net Position	$ 16,998	$ 8,675	$ 6,758	$ 8,323	$ 1,917

The table below show that WWO overall operating expenses have slightly increased over the past 3 years and despite the increased revenues from the annual gradual tariff adjustments, operating income is consistently and significantly negative since the merger in 2013.

(Dollars in thousands)

WWO	Sept 30, 2017	Sept 30, 2016 (As Restated)	Sept 30, 2015	Incr (Decr) 2017	Incr (Decr) 2016
Revenues, Expenses, and Changes in Net Position					
Operating Revenues:					
Water & Wastewater	$ 5,436	$ 4,390	$ 3,073	$ 1,046	$ 1,317
Others	157	119	156	38	(37)
Provision for BD	(22)	(22)	(155)	-	133
Nonoperating Revenue/Exp	(73)	2,725	3,496	(2,798)	(771)
Total Revenue	5,498	7,212	6,570	(1,714)	642
Operating Expenses:					
Water & Wastewater	4,786	5,048	4,412	(262)	636
Depreciation	1,703	1,753	1,769	(50)	(16)
Admin	1,005	820	677	185	143
Total Operating Expenses	7,494	7,621	6,858	(127)	763
Capital Contributions	10,319	2,326	123	7,993	2,203
Change in Net Position	8,323	1,917	(165)	6,406	2,082
Beginning Net Position	8,675	6,758	6,923	1,917	(165)
Ending Net Position	$ 16,998	$ 8,675	$ 6,758	$ 8,323	$ 1,917

Water and Wastewater Operation (WWO) Outlook

Through an ongoing program of cost constraint, coupled with modest increases in total consumption and continued implementation of the tariff rate strategy, Water and Wastewater Operations continue to steadily improve its net operating result.

WWO has managed to reduce operating costs approximately 1.7% below the 2016 year. This was partially due to a change in the basis of calculation apportioning administrative overheads between EPO and WWO operations to more accurately reflect their relative share of costs. At the same time, cost increases in a number of cost categories have been restrained, and improvements in infrastructure are reducing system losses, which together have also contributed towards containing cost increases.

Operating revenues have increased by approximately 7% through a combination of customer growth; installation of meters; and scheduled tariff rate increases. Offsetting this has been the success of the conservation program, which has increased customer awareness of water saving strategies and overall is marginally reducing average customer consumption. WWO will continue to promote efficient use of this valuable natural resource and at the same time manage the delicate balance between revenue targets and conservation efforts.

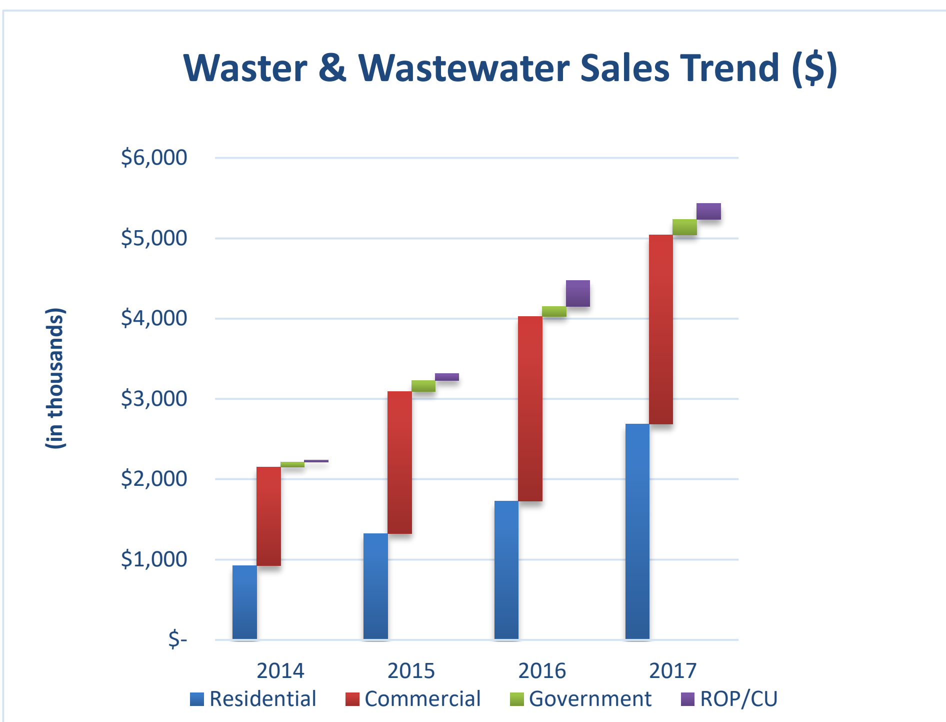
Improvement in the net operating result for WWO has been slower than previously forecast, due both to deferrals in the implementation of scheduled tariff rate increases, and the maintenance needs of infrastructure that is in poorer condition than anticipated when handed-over by government.

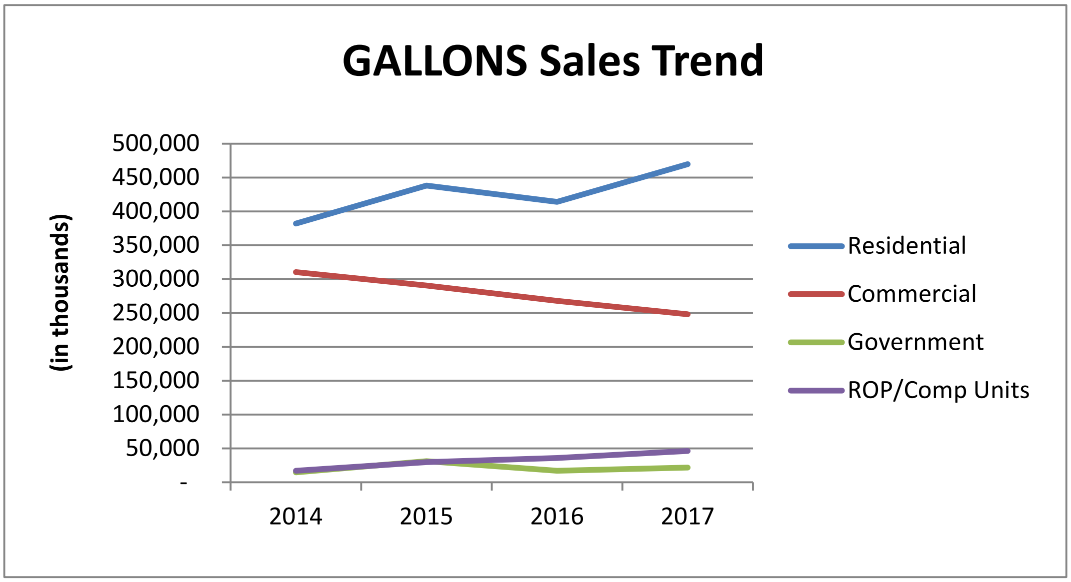
The fiscal sustainability of operations in Koror and Airai continues to improve, as most of the consumption growth is in these areas, and the addition of meters has improved the accuracy of billing. It is anticipated that as system losses continue to be reduced; customer growth continues to increase; 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.

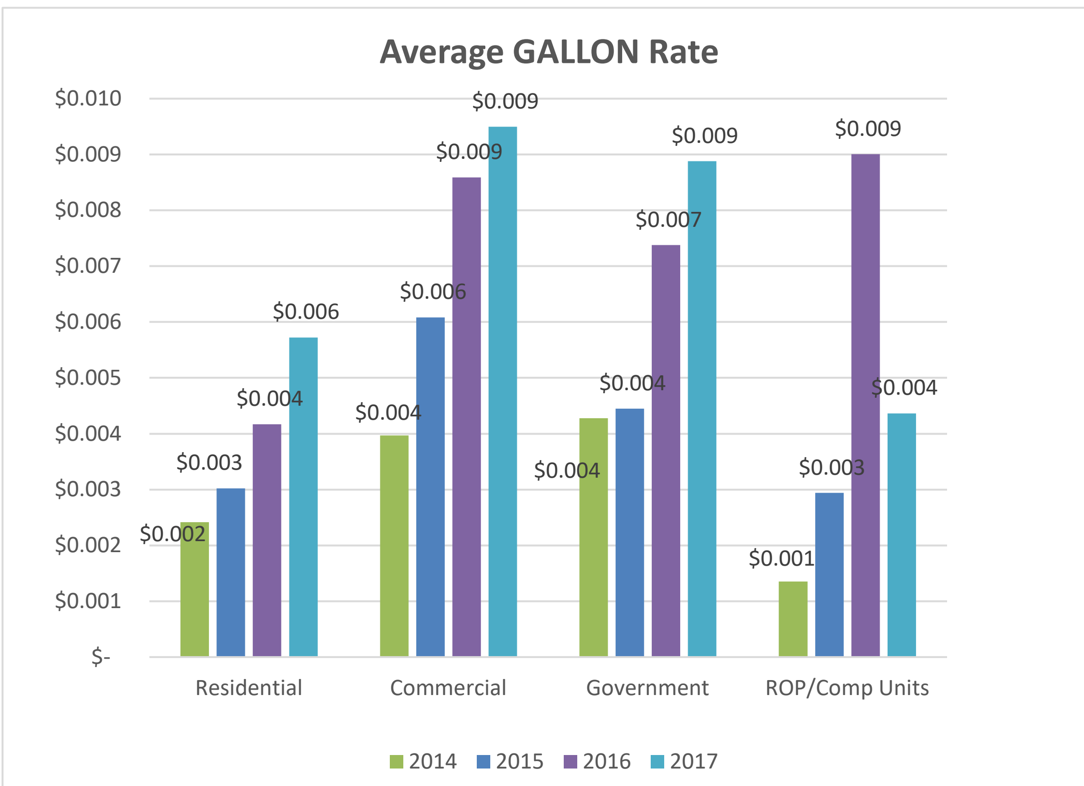
Outlying States water and wastewater operations continue to record a substantial net operating deficit, and this is unlikely to improve in the foreseeable future. Substandard and obsolete infrastructure; the small scale of operations; labour-intensive systems; and frozen tariff rates combine to produce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

Overall, WWO operational performance aligns with expectations and continues to improve. Combined with the major ongoing capital works improvements in both water and wastewater infrastructure, it is anticipated that if the recently developed tariff rate structure and strategy is endorsed and implemented as planned, fiscal sustainability will be achieved within a 3 – 5 year outlook, excluding the ongoing problematic financial performance of Outlying States.

The following graphs show WWO trends:




GALLONS Sales Trend
(in thousands)
500,000
450,000
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
2014
2015
2016
2017
Residential
Commercial
Government
ROP/Comp Units


Average GALLON Rate
$0.010
$0.009
$0.008
$0.007
$0.006
$0.005
$0.004
$0.003
$0.002
$0.001
$-
Residential
Commercial
Government
ROP/Comp Units
2014
2015
2016
2017

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, 2015 through 2017. The total investment in capital assets amounted to $64.8 million (net of accumulated depreciation). The increase in the overall corporate capital assets of $15.1 million was due to acquisition of vehicles and equipment, facility upgrades, construction in progress, and building expansions, etc.

(Dollars in Thousands)

CAPITAL ASSETS:	Sept 30, 2017	Sept 30, 2016 (As Restated)	Sept 30, 2015	Increase (Decrease) 2017	Increase (Decrease) 2016
Electric Plants:					
Electric Plants, Koror/Aimeliik	$ 38,971	$ 39,391	$40,027	$ (420)	$ (636)
Electric Plants, Outlying States	2,473	2,664	2,625	(191)	39
Total Electric Plants	41,444	42,055	42,652	(611)	(597)
Accumulated Depreciation	(18,526)	(17,344)	(15,863)	(1,182)	(1,481)
Net Electric Plant	22,918	24,711	26,789	(1,793)	(2,078)
Transmission & Distribution System					
T&D System, Koror/Aimeliik	18,219	17,694	17,552	525	142
T&D System, Outlying States	2,127	2,127	2,199	-	(72)
Total T&D System	20,346	19,821	19,751	525	70
Accumulated Depreciation	(12,328)	(11,689)	(11,063)	(639)	(626)
Net T&D System	8,018	8,132	8,688	(114)	(556)
Water & Sewer Systems					
Water Infrastructure	24,060	23,476	21,761	584	1,715
Sewer Infrastructure	20,688	20,688	20,129	-	559
Total Water & Sewer Systems	44,748	44,164	41,890	584	2,274
Accumulated Depreciation	(35,136)	(33,949)	(31,988)	(1,187)	(1,961)
Net Water & Sewer Systems	9,612	10,215	9,902	(603)	313
Water & Sewer Transmission & Distribution System				-	
WWO T&D System, Koror/Babeldaob	385	318	318	67	-
Total WWO T&D System	385	318	318	(36)	-
Accumulated Depreciation	(99)	(63)	(32)	(67)	(31)
Net WWO T&D System	286	255	286	(103)	(31)
Administrative Equipment					
Buildings	2,138	2,194	1,816	(56)	378
Heavy Equipment & Vehicles	2,278	1,880	1,760	398	120
Tools & Maint Equipment	445	446	615	(1)	(169)
Computers & Office Equipment	1,117	945	743	172	202
Total Admin Equipment	5,978	5,465	4,934	513	531
Accumulated Depreciation	(3,497)	(3,056)	(3,375)	(441)	319
Net Admin Equipment	2,481	2,409	1,559	72	850
Total Capital Projects in Progress	21,511	3,855	2,990	17,656	865
TOTAL	$ 64,826	$ 49,577	$50,214	$ 15,115	$ (637)

Please see note 7 to the financial statements for additional information on 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 and sewerage network in Airai. The ADB loan amount as of September 30, 2017 reflects the total amount of the loan proceeds withdrawn and is recognized as long-term debt in the financial statements.

(Dollars in thousands)

	Face Value	Sept 30, 2017
International Loan	$ 7,000	$ 3,800
Local Loan	$ 3,300	$ 2,262
ADB Loan	$ 28,667	$ 6,159
TOTAL	$ 38,967	$ 12,221

Please see note 8 to the financial statements for additional information on PPUC's financing activities.

Contracts amounting to $22.1 million have been awarded as shown in Table below:

ADB Loan Contractors	KASP Project Components	Contract Amount ('000)
Progetti Plant, SRL	ICB-01 - Sewer Network Rahabilitation and Expansion at Malakal & Meyuns	$ 4,032
Pacific Engineering Projects, Ltd.	ICB-02 - Koror Sewer Network Rehabilitation & Expansion Works	5,675
Pacific Engineering Projects, Ltd.	ICB-03 - Malakal Sewer Treatment Plant Upgrade	9,356
Egis Eau	Project Implementation Assistance Consultants (PIAC)	3,132
		$ 22,195

FUTURE OUTLOOK

Palau has beautiful beaches, rock islands, and scenery that are breathtaking to its visitors but like many Pacific Islands, it remains vulnerable to the impacts of climate changes. Further Palau's economy is based primarily on fishing and subsistence agriculture, having PPUC as a sole provider of electric, water, and wastewater services.

PPUC is facing significant challenges, both operational and financial and relying on the national government and foreign entities, including Japan and the United States to provide substantial grant funding for its capital expenditures and could face financial distress should the external funding sources decline.

CONTACTING PPUC'S FINANCIAL MANAGEMENT

This financial report is designed to provide PPUC's rate payers and creditors with a general overview of PPUC's finances and to demonstrate PPUC's accountability for the financial resources it receives. Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in PPUC's report on the audit of financial statements which is dated June 30, 2017.

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 hidechong@ppuc.com or call 488-5320.

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

Statements of Net Position
September 30, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017	2016 As restated (Note 15)
Utility plant:		
Depreciable utility plant	$ 43,314,665	$ 45,721,048
Non-depreciable utility plant	21,511,564	3,855,531
Net utility plant	64,826,229	49,576,579
Current assets:		
Cash and cash equivalents	12,389,404	15,423,579
Receivables:		
Trade	4,006,092	3,837,755
Affiliate	544,975	669,904
Contracts	178,131	127,452
Other	26,918	21,717
	4,756,116	4,656,828
Less allowance for doubtful accounts	(1,082,651)	(936,585)
Net receivables	3,673,465	3,720,243
Prepaid expenses	213,114	234,077
Inventory, net	8,361,202	7,528,944
Due from grantor agencies	191,000	-
Total current assets	24,828,185	26,906,843
Other non-current assets:		
Contracts receivable, net of current portion	304,128	194,865
Total assets	89,958,542	76,678,287
Deferred outflows of resources from pension	3,400,221	1,974,584
	$ 93,358,763	$ 78,652,871

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2017	2016 As restated (Note 15)
Net position:		
Net investment in utility plant	$ 54,580,817	$ 43,416,385
Unrestricted	650,242	4,630,791
Total net position	55,231,059	48,047,176
Commitments and contingencies		
Current liabilities:		
Current portion of long-term debt	833,601	572,043
Accounts payable	5,550,302	4,119,711
Accrued expenses	807,210	725,392
Grant advances from the Republic of Palau	682,883	571,273
Customer deposits	1,043,594	959,276
Total current liabilities	8,917,590	6,947,695
Long-term debt, net of current portion	11,387,811	7,772,151
Net pension liability	16,006,220	13,674,468
Total liabilities	36,311,621	28,394,314
Deferred inflows of resources from pension	1,816,083	2,211,381
	$ 93,358,763	$ 78,652,871

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, 2017 and 2016

	2017	2016 As restated (Note 15)
Operating revenues:		
Power	$ 17,581,267	$ 17,908,448
Water	3,495,467	3,004,280
Wastewater	1,860,942	1,304,738
Other	1,155,445	1,026,926
Total operating revenues	24,093,121	23,244,392
Provision for uncollectible receivables	(146,066)	(95,541)
Net operating revenues	23,947,055	23,148,851
Operating expenses:		
Generation - fuel	11,520,541	10,136,046
Depreciation	4,430,915	4,425,371
Generation - other cost	3,730,413	2,356,994
Administration	1,965,953	1,748,036
Distribution and transmission	1,355,904	1,234,603
Engineering services	531,671	328,326
Renewable energy	238,241	531,586
Water operations	2,235,056	2,798,662
Wastewater operations	680,961	421,120
Total operating expenses	26,689,655	23,980,744
Operating loss	(2,742,600)	(831,893)
Nonoperating revenues (expenses):		
Grants	42,000	1,079,356
Interest income	2,818	3,719
Operating subsidies from the Republic of Palau	-	2,762,993
Interest expense	(375,269)	(353,445)
Loss on disposal of utility plant	(158,834)	-
Others	(33,752)	243,697
Total nonoperating revenues (expenses), net	(523,037)	3,736,320
(Loss) income before capital contributions	(3,265,637)	2,904,427
Capital contributions:		
Grants from the Japan Government	10,318,720	946,528
Donated capital from the Republic of Palau	-	52,821
Capital contributions from the Republic of Palau	130,800	1,419,400
Change in net position	7,183,883	5,323,176
Net position at beginning of year	48,047,176	42,724,000
Net position at end of year	$ 55,231,059	$ 48,047,176

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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	$ 24,157,239	$ 23,592,203
Cash payments to suppliers for goods and services	(16,545,304)	(14,428,076)
Cash payments to employees for services	(4,808,313)	(3,889,494)
Net cash provided by operating activities	2,803,622	5,274,633
Cash flows from investing activities:		
Interest income	2,818	3,719
Cash flows from non-capital financing activities:		
Appropriations received from the Republic of Palau	-	2,762,993
Cash received from grantor agencies	42,000	354,398
Net cash provided by non-capital financing activities	42,000	3,117,391
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	4,378,102	923,333
Principal payment on long-term debt	(571,934)	(559,082)
Interest paid on long-term debt	(306,885)	(396,058)
Capital contributions from the Republic of Palau	-	1,419,400
Advances from the Republic of Palau	150,000	-
Acquisition of utility plant	(9,531,898)	(2,779,673)
Net cash used in capital and related financing activities	(5,882,615)	(1,392,080)
Net change in cash and cash equivalents	(3,034,175)	7,003,663
Cash and cash equivalents at beginning of year	15,423,579	8,419,916
Cash and cash equivalents at end of year	$ 12,389,404	$ 15,423,579

Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (2,742,600)	$ (831,893)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	4,430,915	4,425,371
Provision for uncollectible receivables	146,066	95,541
Pension expense	510,817	403,494
(Increase) decrease in assets:		
Receivables:		
Trade	47,188	(269,870)
Affiliate	124,929	(303,119)
Contracts	(159,942)	74,074
Other	(5,201)	397,123
Prepaid expenses	20,963	1,051
Inventory	(950,734)	1,096,186
Increase (decrease) in liabilities:		
Accounts payable	1,239,591	(25,712)
Accrued expenses	84,486	(43,520)
Grant advances from the Republic of Palau	(27,174)	60,060
Customer deposits	84,318	195,847
Net cash provided by operating activities	$ 2,803,622	$ 5,274,633

Non-cash transactions:

In 2017 and 2016, utility plant includes approximately $10 million and $1 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 $500 or more.

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

PPUC capitalizes interest in order to recognize all costs associated with construction based on PPUC's weighted average borrowing rate. No interest was capitalized during the years ended September 30, 2017 and 2016.

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, 2017 and 2016 were $1,372,990 and $1,949,750, 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 employee 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, 2017, PPUC implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68.

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions.*

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued 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. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued 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. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the 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.

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 March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address 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). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. 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 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.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to correspond with the 2017 financial statement 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, 2017 and 2016, cash and cash equivalents were $12,389,404 and $15,423,579, respectively, and the corresponding bank balances were $13,308,112 and $15,709,975, respectively, that are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017 and 2016, 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. PPUC is also a recipient of grants from the Pacific Community for various EPO and WWO projects. 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, 2017 and 2016 are as follows:

	2017	2016 (Restated)
U.S. Federal Government	$ 42,000	$ 42,000
Japan Government	10,318,720	946,528
The Pacific Community	-	1,037,356
	$ 10,360,720	$ 2,025,884

(5) Receivable from a Local Bank

At September 30, 2017 and 2016, PPUC has uninsured deposits of $1,974,856 with a bank that went into receivership on November 7, 2006. These deposits were fully provided for with an allowance at September 30, 2017 and 2016.

(6) Inventory

Inventory at September 30, 2017 and 2016, consists of the following:

	2017	2016
Generation parts and supplies	$ 6,240,394	$ 5,674,314
Fuel	1,989,386	2,007,186
Lubricants	34,499	53,526
Chemicals	187,356	143,996
Water distribution parts and supplies	370,450	110,805
	8,822,085	7,989,827
Allowance for slow moving and obsolete inventory	(460,883)	(460,883)
	$ 8,361,202	$ 7,528,944

An allowance for slow moving and obsolete inventory of $414,135 at September 30, 2017 and 2016 was provided for generation parts and supplies inventory maintained in the Aimeliik power plant that caught fire in November 2011. In November 2015, PPUC sold $548,812 of Aimeliik generation parts and supplies inventory for $274,406.

(7) Utility Plant

Utility plant consists of the following detailed balances at September 30, 2017 and 2016:

	Estimated Useful Lives	Balance at October 1, 2016 (Restated)	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

(7) Utility Plant, Continued

	Estimated Useful Lives	Balance at October 1, 2015	Additions and Transfers (Restated)	Deletions and Transfers	Balance at September 30, 2016 (Restated)
Depreciable utility plant:					
Electric plant	3 - 25 years	$ 41,596,670	$ 458,449	$ -	$ 42,055,119
Water system	20 years	22,155,417	1,321,000	-	23,476,417
Sewer system	20 years	20,128,977	559,432	-	20,688,409
General support equipment	2 - 30 years	24,180,276	583,152	(178,095)	24,585,333
Administrative equipment	2 - 10 years	643,123	-	(18,691)	624,432
		108,704,463	2,922,033	(196,786)	111,429,710
Less accumulated depreciation		(61,480,077)	(4,425,371)	196,786	(65,708,662)
		47,224,386	(1,503,338)	-	45,721,048
Non-depreciable utility plant:					
Construction in progress		2,989,592	4,157,758	(3,291,819)	3,855,531
		$ 50,213,978	$ 2,654,420	$ (3,291,819)	$ 49,576,579

(8) Long-Term Debt

	2017	2016
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.	$ 3,800,000	$ 4,200,000
On April 21, 2010, PPUC entered into a loan with a development bank, an affiliated organization, for $3,000,000 to finance the purchase of two generator sets. The loan is due on April 21, 2025 and is collateralized by the generator sets inclusive of auxiliary equipment. The loan bears interest of 7.5% per annum and is to be repaid monthly beginning January 30, 2011 in principal and interest payments of $27,810. Payment of interest during the eight month grace period was spread over twelve months with an equal payment of $12,500 per month beginning January 30, 2011.	2,062,034	2,233,965

(8) Long-Term Debt, Continued

	2017	2016
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.	6,159,378	1,910,229
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.	200,000	-
Total long-term debt	12,221,412	8,344,194
Less current maturities	(833,601)	(572,043)
	$ 11,387,811	$ 7,772,151

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

Year Ending September 30,	Principal	Interest	Total
2018	$ 833,601	$ 391,385	$ 1,224,986
2019	936,195	360,911	1,297,106
2020	871,361	330,074	1,201,435
2021	925,434	297,102	1,222,536
2022	980,484	267,322	1,247,806
2023 - 2027	4,431,805	770,895	5,202,700
2028 - 2032	1,652,414	285,958	1,938,372
2033 - 2037	1,460,228	212,366	1,672,594
2038	129,890	16,837	146,727
	$ 12,221,412	$ 2,932,850	$ 15,154,262

(8) Long-Term Debt, Continued

Movements in long-term liabilities for the years ended September 30, 2017 and 2016, are as follows:

	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

	Balance at October 1, 2015	Additions	Repayments	Balance at September 30, 2016	Balance Due in One Year
Long-term debt	$ 7,979,944	$ 923,332	$ (559,082)	$ 8,344,194	$ 572,043
Net pension liability	13,135,896	538,572	-	13,674,468	-
	$ 21,115,840	$ 1,461,904	$ (559,082)	$ 22,018,662	$ 572,043

(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.

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, 2015 (the valuation date):

Inactive members currently receiving benefits	1,507
Inactive members entitled to but not yet receiving benefits	1,151
Active members	3,120
Total members	5,778

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

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 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.

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued:

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

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:

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued:

- 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 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.

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Member Contributions:

Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than fifteen years membership service may elect to receive a refund of all of his or her contributions. Subsequent changes in the percentage contributed by members may be made through an amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the 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 $234,572, $201,827 and $184,349 to the Fund during the fiscal years 2017, 2016 and 2015, 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, 2016, 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
Expenses:	$300,000 each year
Inflation:	3.0%
Salary Increase:	3.0% per year

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued:

Mortality:	RP 2000 Combined Healthy Mortality Table, set forward four years for all members except disability recipients, where the table is set forward 10 years
Termination of Employment:	5% per year prior to age 35; none after age 35

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
Duty vs Non-duty related disability:	100% Duty related
Pre-retirement Beneficiary Benefit Former Members:	Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses.
Post Retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death. 80% of active workers are assumed to be married when they retire. Males are assumed to be 3 years older than their spouses.

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.

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Investment Rate of Return, Continued:

As of September 30, 2016, 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 2.98% at the current measurement date reduced from 3.83% 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 2019 for 2016 measurement date. For years on or after 2019, a discount rate of 2.93% 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, 2016, calculated using the discount rate of 2.98% as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.98%) or 1.00% higher (3.98%) from the current rate.

	1% Decrease 1.98%	Current Single Discount Rate Assumption 2.98%	1% Increase 3.98%
EPO	$ 10,455,855	$ 9,010,791	$ 7,814,497
WWO	8,117,290	6,995,429	6,066,700
	$ 18,573,145	$ 16,006,220	$ 13,881,197

(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, 2017 and 2016, 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
2017:		
EPO	$ 9,010,791	3.61%
WWO	6,995,429	2.80%
	$ 16,006,220	
2016:		
EPO	$ 7,915,040	3.67%
WWO	5,759,428	2.67%
	$ 13,674,468	

Pension Expense:

For the years ended September 30, 2017 and 2016, PPUC recognized pension expense as follows:

	2017	2016
EPO	$ 334,740	$ 298,422
WWO	409,933	305,921
	$ 744,673	$ 604,343

Deferred Outflows and Inflows of Resources:

At September 30, 2017 and 2016, PPUC reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
EPO:				
Changes of assumptions	$ 1,380,997	$ 213,093	$ 649,382	$ 324,399
Net difference between projected and actual earnings on pension plan investments	77,379	17,516	89,790	283,386
Difference between expected and actual experience	-	230,949	-	-
Contributions subsequent to the measurement date	126,710	-	103,703	-
Changes in proportion and difference between EPO contributions and proportionate share of contributions	-	495,901	-	504,696
	1,585,086	957,459	842,875	1,112,481

(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:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
WWO:				
Changes of assumptions	1,072,122	165,432	472,526	236,051
Net difference between projected and actual earnings on pension plan investments	60,072	13,598	65,336	206,207
Difference between expected and actual experience	-	179,295	-	-
Contributions subsequent to the measurement date	107,862	-	98,122	-
Changes in proportion and difference between WWO contributions and proportionate share of contributions	575,079	500,299	495,725	656,642
	1,815,135	858,624	1,131,709	1,098,900
	$ 3,400,221	$ 1,816,083	$ 1,974,584	$ 2,211,381

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, 2017 will be recognized in pension expense as follows:

Year Ending September 30,	
EPO:	
2018	$ 14,658
2019	14,929
2020	155,711
2021	102,774
2022	103,399
Thereafter	109,446
	500,917
WWO:	
2018	161,440
2019	161,651
2020	93,422
2021	141,407
2022	159,711
Thereafter	131,018
	848,649
	$ 1,349,566

(10) Related Party Transactions

Sale of Utility Services

Utility services of $5,375,942 and $5,253,772 were rendered to the ROP for the years ended September 30, 2017 and 2016, respectively. PPUC provides utility services to the ROP at the same rates charged to third parties.

Receivables of $544,975 and $669,904 (excluding unbilled receivable of $376,920 and $456,940 as of September 30, 2017 and 2016, respectively) are due from the ROP for utility services as of September 30, 2017 and 2016, respectively, and are included in the receivable from affiliate in the accompanying statements of net position. Of these receivables, $148,050 and $344,432 as of September 30, 2017 and 2016, 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, 2017 and 2016, PPUC recognized $0 and $2,266,993, respectively, of WWO operating subsidies from the ROP. Although no subsidies were received in 2017, the 2018 WWO operating subsidies have been approved by the ROP. In addition, for the year ended September 30, 2016, PPUC recognized $1,327,648 of capital contributions from the ROP for various WWO projects.

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 years ended September 30, 2017 and 2016, the energy charge incurred by the ROP was $11,584 and $17,228, respectively.

PPUC has transactions with Palau Telecoms, a company owned by a board member, for communication services amounting to $54,500 for the year ended September 30, 2016. 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 about $24,000 of power pole rent during the year ended September 30, 2017. The agreement is for seven years with option to renew for two additional terms of five years each.

(10) Related Party Transactions, Continued

PPUC also has transactions with KJI and Associates, a company owned by a senior manager, for equipment rental and equipment purchased totaling $71,700 and $138,410 for the years ended September 30, 2017 and 2016, respectively.

(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, 2017, PPUC has various on-going construction contracts with a total contract price of $23 million of which $7.4 million is recorded as construction in progress.

(12) Contingencies

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).

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.

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

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 2019 if no changes are made in contribution and/or benefits.

PPUC has been cited for several violations of the Environmental Quality Protection Act by the Environmental Quality Protection Board (EQPB). EQPB and PPUC agreed to develop a comprehensive maintenance plan to address the violations which is currently on-going and therefore no provision was recorded in the financial statements for this contingency.

(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 $1,923,213 and $3,134,099 for the years ended September 30, 2017 and 2016, 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.

(15) Restatement

The 2016 financial statements have been restated to record grants received in 2017 that relate to 2016. The effect on the 2016 financial statements is as follows:

	As Previously Reported	As Restated
Non-depreciable utility plant	$ 2,909,003	$ 3,855,531
Net investment in utility plant	$ 42,469,857	$ 43,416,385
Grants from the Japan Government	$ -	$ 946,528

(16) Subsequent Event

On April 23, 2018, RPPL 10-23 was enacted to establish the Palau Energy Administration (PEA) as the sole regulatory authority in the area of energy production, purchase, and sale. Upon the promulgation of regulations by the PEA, PPUC shall no longer have authority to issue regulations governing energy production and any proposed changes to electricity tariffs or rates by PPUC will be subject to the approval of the PEA.

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*

	2017	2016	2015	2014
Total Republic of Palau net pension liability	$ 249,453,960	$ 215,546,176	$ 204,281,232	$ 182,080,332
PPUC's proportionate share of the net pension liability	$ 16,006,220	$ 13,674,468	$ 13,135,896	$ 12,920,967
PPUC's proportion of the net pension liability	6.42%	6.34%	6.43%	7.10%
PPUC's covered-employee payroll**	$ 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	471.00%	444.45%	434.54%	435.84%
Plan fiduciary net position as a percentage of the total pension liability	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*

	2017	2016	2015	2014
Actuarially determined contribution	$ 925,093	$ 691,501	$ 683,121	$ 714,295
Contribution in relation to the actuarially determined contribution	201,110	183,373	178,010	178,540
Contribution deficiency	$ 723,983	$ 508,128	$ 505,111	$ 535,755
PPUC's covered-employee payroll **	$ 3,398,382	$ 3,076,703	$ 3,022,976	$ 2,964,580
Contribution as a percentage of covered-employee payroll	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, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Utility plant:				
Depreciable utility plant	$ 33,529,403	$ 9,785,262	$ -	$ 43,314,665
Non-depreciable utility plant	2,765,340	18,746,224	-	21,511,564
Net utility plant	36,294,743	28,531,486	-	64,826,229
Current assets:				
Cash and cash equivalents	8,342,246	4,047,158	-	12,389,404
Receivables:				
Trade	3,054,528	951,564	-	4,006,092
Affiliate	3,472,859	166,422	(3,094,306)	544,975
Contracts	93,838	84,293	-	178,131
Other	25,941	977	-	26,918
	6,647,166	1,203,256	(3,094,306)	4,756,116
Less allowance for doubtful accounts	(864,797)	(217,854)	-	(1,082,651)
Net receivables	5,782,369	985,402	(3,094,306)	3,673,465
Prepaid expenses	190,051	23,063	-	213,114
Inventory, net	7,803,395	557,807	-	8,361,202
Due from grantor agencies	-	191,000	-	191,000
Total current assets	22,118,061	5,804,430	(3,094,306)	24,828,185
Other non-current assets:				
Contracts receivable, net of current portion	187,841	116,287	-	304,128
Total assets	58,600,645	34,452,203	(3,094,306)	89,958,542
Deferred outflows of resources from pension	1,585,086	1,815,135	-	3,400,221
	$ 60,185,731	$ 36,267,338	$ (3,094,306)	$ 93,358,763

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Net position:				
Net investment in utility plant	$ 32,408,709	$ 22,172,108	$ -	$ 54,580,817
Unrestricted	5,824,205	(5,173,963)	-	650,242
Total net position	38,232,914	16,998,145	-	55,231,059
Commitments and contingencies				
Current liabilities:				
Current portion of long-term debt	585,399	248,202	-	833,601
Accounts payable	4,056,323	4,588,285	(3,094,306)	5,550,302
Accrued expenses	424,530	382,680	-	807,210
Grant advances	682,883	-	-	682,883
Customer deposits	958,797	84,797	-	1,043,594
Total current liabilities	6,707,932	5,303,964	(3,094,306)	8,917,590
Long-term debt, net of current portion	5,276,635	6,111,176	-	11,387,811
Net pension liability	9,010,791	6,995,429	-	16,006,220
Total liabilities	20,995,358	18,410,569	(3,094,306)	36,311,621
Deferred inflows of resources from pension	957,459	858,624	-	1,816,083
	$ 60,185,731	$ 36,267,338	$ (3,094,306)	$ 93,358,763

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, 2017

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Operating revenues:				
Power	$ 19,523,484	$ -	$ (1,942,217)	$ 17,581,267
Water	-	3,574,977	(79,510)	3,495,467
Wastewater	-	1,860,942	-	1,860,942
Other	998,586	156,859	-	1,155,445
Total operating revenues	20,522,070	5,592,778	(2,021,727)	24,093,121
Provision for uncollectible receivables	(124,013)	(22,053)	-	(146,066)
Net operating revenues	20,398,057	5,570,725	(2,021,727)	23,947,055
Operating expenses:				
Generation - fuel	11,520,541	-	-	11,520,541
Depreciation	2,727,480	1,703,435	-	4,430,915
Generation - other cost	3,807,307	-	(76,894)	3,730,413
Administration	1,003,069	1,004,471	(41,587)	1,965,953
Distribution and transmission	1,378,512	-	(22,608)	1,355,904
Engineering services	536,983	-	(5,312)	531,671
Renewable energy	243,552	-	(5,311)	238,241
Water operations	-	3,656,800	(1,421,744)	2,235,056
Wastewater operations	-	1,129,232	(448,271)	680,961
Total operating expenses	21,217,444	7,493,938	(2,021,727)	26,689,655
Operating loss	(819,387)	(1,923,213)	-	(2,742,600)
Nonoperating revenues (expenses):				
Grants	42,000	-	-	42,000
Interest income	2,179	639	-	2,818
Interest expense	(304,219)	(71,050)	-	(375,269)
Loss on disposal of utility plant	(157,518)	(1,316)	-	(158,834)
Others	(32,805)	(947)	-	(33,752)
Total nonoperating revenues (expenses), net	(450,363)	(72,674)	-	(523,037)
Loss before capital contributions	(1,269,750)	(1,995,887)	-	(3,265,637)
Capital contribution:				
Grants from the Japan Government	-	10,318,720	-	10,318,720
Capital contributions from the Republic of Palau	130,800	-	-	130,800
Change in net position	(1,138,950)	8,322,833	-	7,183,883
Net position at beginning of year	39,371,864	8,675,312	-	48,047,176
Net position at end of year	$ 38,232,914	$ 16,998,145	$ -	$ 55,231,059

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, 2017

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Cash flows from operating activities:				
Cash received from customers	$ 20,586,817	$ 5,610,060	$ (2,039,638)	$ 24,157,239
Cash payments to suppliers for goods and services	(16,115,553)	(2,469,389)	2,039,638	(16,545,304)
Cash payments to employees for services	(2,652,982)	(2,155,331)	-	(4,808,313)
Net cash provided by operating activities	1,818,282	985,340	-	2,803,622
Cash flows from investing activities:				
Interest income	2,179	639	-	2,818
Cash flows from non-capital financing activities:				
Cash received from grantor agencies	42,000	-	-	42,000
Cash flows from capital and related financing activities:				
Proceeds from issuance of long-term debt	-	4,378,102	-	4,378,102
Principal payment on long-term debt	(571,934)	-	-	(571,934)
Interest paid on long-term debt	(306,885)	-	-	(306,885)
Advances from the Republic of Palau	150,000	-	-	150,000
Acquisition of utility plant	(3,297,804)	(6,234,094)	-	(9,531,898)
Net cash used in capital and related financing activities	(4,026,623)	(1,855,992)	-	(5,882,615)
Net change in cash and cash equivalents	(2,164,162)	(870,013)	-	(3,034,175)
Cash and cash equivalents at beginning of year	10,506,408	4,917,171	-	15,423,579
Cash and cash equivalents at end of year	$ 8,342,246	$ 4,047,158	$ -	$ 12,389,404

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Reconciliation of operating loss to net cash provided by operating activities:				
Operating loss	$ (819,387)	$ (1,923,213)	$ -	$ (2,742,600)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation	2,727,480	1,703,435	-	4,430,915
Provision for uncollectible receivables	124,013	22,053	-	146,066
Pension expense	198,518	312,299	-	510,817
(Increase) decrease in assets:				
Receivables:				
Trade	127,551	(80,363)	-	47,188
Affiliate	(144,803)	287,643	(17,911)	124,929
Contracts	16,138	(176,080)	-	(159,942)
Other	(4,708)	(493)	-	(5,201)
Prepaid expenses	(9,470)	30,433	-	20,963
Inventory	(647,728)	(303,006)	-	(950,734)
Increase (decrease) in liabilities:				
Accounts payable	127,431	1,094,249	17,911	1,239,591
Accrued expenses	52,678	31,808	-	84,486
Grant advances from the Republic of Palau	(27,174)	-	-	(27,174)
Customer deposits	97,743	(13,425)	-	84,318
Net cash provided by operating activities	$ 1,818,282	$ 985,340	$ -	$ 2,803,622

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, 2017

	Electric Power Operations	Water and Wastewater Operations
Operating revenues:		
Commercial	$ 7,690,020	$ 2,355,981
Residential	5,639,096	2,687,440
Government	1,019,360	191,564
Republic of Palau and component units	5,175,008	200,934
Other	998,586	156,859
	$ 20,522,070	$ 5,592,778
Operating expenses:		
Personnel costs:		
Salaries and wages	$ 2,335,251	$ 1,892,367
Employee benefits	316,291	261,778
Other employee benefits	54,118	32,993
Pension expense adjustment - GASB 68	198,518	312,299
Total personnel costs	2,904,178	2,499,437
Generation - fuel	11,520,541	-
Depreciation	2,727,480	1,703,435
Repairs and maintenance	3,065,729	656,511
Communication	45,134	25,993
Utilities	131,702	1,890,025
Supplies	94,176	43,956
Gas and oil	98,877	62,011
Insurance	88,749	26,845
Small tools and equipment	98,963	48,398
Professional services	249,980	84,869
Rent	49,841	60,790
Water treatment chemicals	-	276,112
Others	142,094	115,556
	$ 21,217,444	$ 7,493,938

See accompanying independent auditors' report.