

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

**FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

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, 2019 and 2018, 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.

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, 2019 and 2018, 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

Going Concern

The accompanying financial statements have been prepared assuming PPUC will continue as a going concern. As discussed in Note 14 to the financial statements, the Water and Wastewater Operations incurred an operating loss of \$4,129,517 and \$3,603,883 for the years ended September 30, 2019 and 2018, respectively. Management plans in regard to these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. 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 25 as well as the Schedule of Proportional Share of the Net Pension Liability on page 48 and the Schedule of Pension Contributions on page 49 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Statement of Net Position, Combining Statement of Revenues, Expenses and Changes in Net Position, Combining Statement of Cash Flows, and Schedule of Revenues and Expenses as of and for the year ended September 30, 2019 on pages 50 through 53 are presented for purposes of additional analysis and are not a required part of the financial statements.

Other Matters, Continued

Other Financial Information, Continued

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2020, 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.



July 31, 2020

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

The Management's Discussion and Analysis (MD&A) presents the Palau Public Utilities Corporation's financial performance during the fiscal year ended September 30, 2019. The discussion and analysis provide users with detailed and comparative information enabling them to assess the individual performance of both Electric Power Operations (EPO) and Water and Wastewater Operations (WWO) and appreciate the change in financial position and critical financial indicators as a result of the current year's operations. The analysis is to be read in conjunction with the audited statements as of and for the year ended September 30, 2019, which follow this section.

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

COMPANY OVERVIEW

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

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

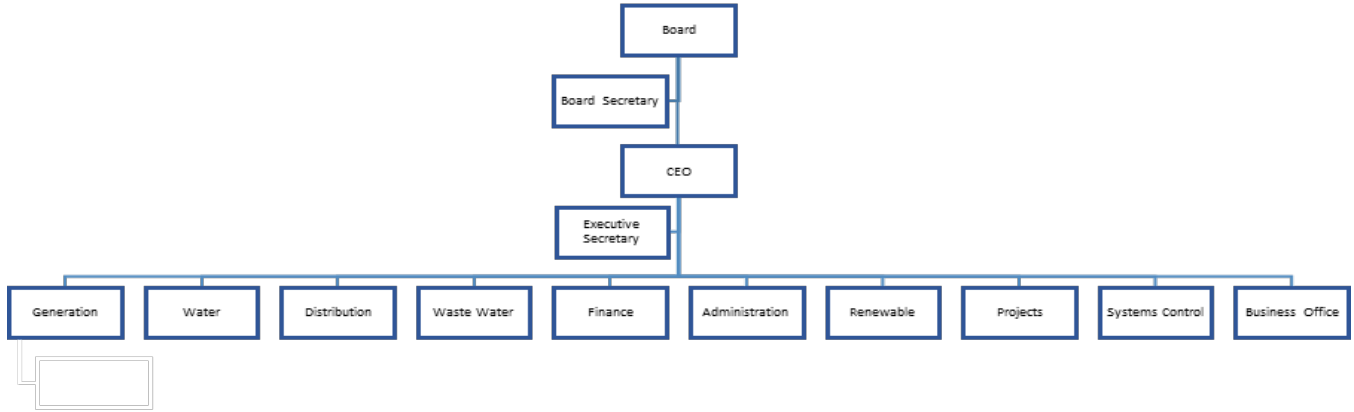
Water and Wastewater operations are treated as a separate business segment from Electric operations, and has its own organizational chart delineating a chain of management that is separate from the electrical operations. Shared administrative and management costs and expertise are allocated (58% for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

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

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Chart 1. Current Organizational Chart



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

FINANCIAL STATEMENTS

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

The Statement of Net Position includes all PPUC's investments in resources and the obligations to creditors. The information from this statement is used as the basis for computing investment rate of return, for assessing the liquidity and financial flexibility of the Corporation, as well as for evaluating the corporate capital structure. The Statement of Revenues, Expenses, and Changes in Net Position contains all of the current (2019) fiscal year's revenues and expenses; measures the success of the Corporation's operations compared to the prior fiscal year; and shows the extent in which PPUC successfully recovered costs through tariffs and other charges. External grant donors and financial institutions review this statement to determine the financial performance of the Corporation. The Statement of Cash Flows provides information on corporate cash inflows and outflows, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities. The Statement provides insight into aspects of cash management, including the sources and uses of cash, and the net change in cash balance during the fiscal year.

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

ELECTRIC POWER OPERATIONS

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

The table 1 below shows the generators in each power plants and their area of coverage:

POWERPLANTS	GENERATORS	CAPACITY	COVERAGE
Aimeliik	Mitsubishi 6	5.0 mw	Koror-Babeldaob
	Mitsubishi 7	5.0 mw	Koror-Babeldaob
Malakal	Niigata 14	5.0 mw	Koror-Babeldaob
	Niigata 15	5.0 mw	Koror-Babeldaob
	Mitsubishi 12	2.0 mw	Koror-Babeldaob
	Mitsubishi 13	2.5 mw	Koror-Babeldaob
	CAT 1	1.2 mw	Koror-Babeldaob
	CAT 2	1.2 mw	Koror-Babeldaob
	Mitsubishi 16	450 kw	Koror-Babeldaob
	Mitsubishi 17	450 kw	Koror-Babeldaob
	Mitsubishi 18	450 kw	Koror-Babeldaob
Mitsubishi 19	450 kw	Koror-Babeldaob	
Peleliu	Yanmar 1	750 kw	Peleliu
	Yanmar 2	750 kw	Peleliu
	FG Wilson	275 kw	Peleliu
	Hatz 1	28 kw	Peleliu
	Hatz 2	28 kw	Peleliu
	Hatz 3	28 kw	Peleliu
	Hatz 4	28 kw	Peleliu
	Hatz 5	28 kw	Peleliu
Hatz 6	28 kw	Peleliu	
Angaur	Perkins 1	112 kw	Anguar
	Perkins 2	112 kw	Anguar
	Cummins	100 kw	Anguar
	Hatz 1	28 kw	Anguar
	Hatz 2	28 kw	Anguar
	Hatz 3	28 kw	Anguar
	Hatz 4	28 kw	Anguar
Kayangel	Cummins 3	112 kw	Kayangel
	Cummins 5	90 kw	Kayangel
	Cummins 6	75 kw	Kayangel

The Renewable Energy Division (RED) is tasked with research, exploration, and development of PPUC's renewable energy sector. The division took the responsibility for the maintenance of the Ngerulmud Capitol Solar System as well as management and maintenance of PPUC's solar system installed at the Palau International Airport. In 2018, a grant from New Zealand was received by PPUC for an installation of a solar hybrid micro-grid on the state of Kayangel, which should save them 60% of fuel costs; and 100kw solar panels at Palau Community College (PCC). In the contract signed by both PPUC and PCC, 65% of the solar energy generated will go to PPUC and 35% will go to PCC. The construction started in FY 2019 and is expected to be fully operational by

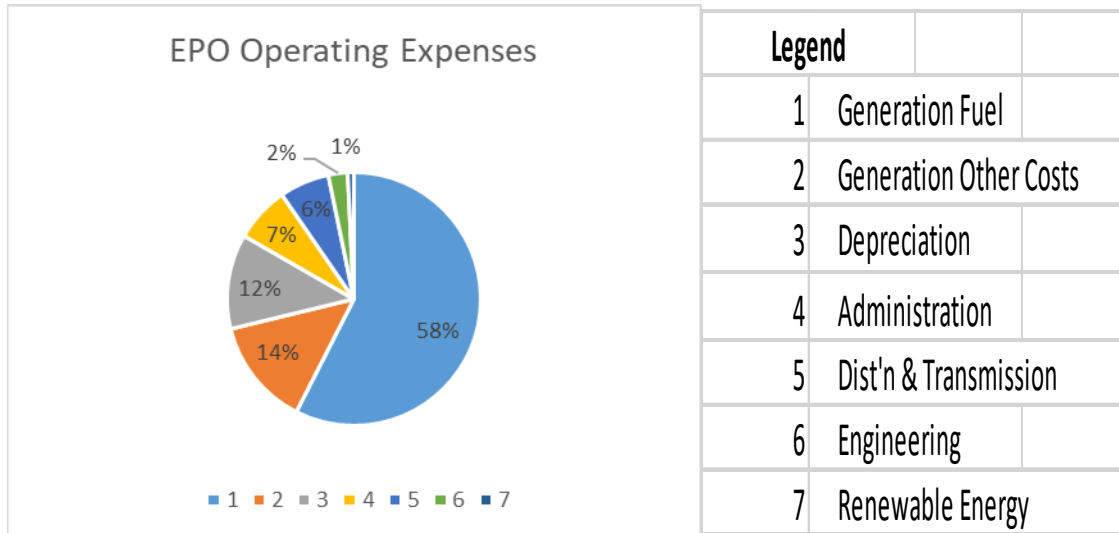
PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

FY 2020. These are some measures PPUC are doing in order to reduce fuel expenses. As a matter of fact, the bidding for the Independent Power Producer (IPP) is on-going. This endeavor is expected to save PPUC from fuel costs. Should this materialize, it will give 20% solar energy in phase 1 and 45% in phase 2.

The chart below shows the ratio of the total operating expenses of the EPO:

Chart 2. Total Operating Expense of EPO:



It shows that almost 58% of the operating expenses is generation fuel.

In addition to energy alternatives, PPUC continues its efforts toward fuel efficiency and reduction of energy losses with upgrades to its aging infrastructure and equipment. PPUC is doing regular maintenance to transmission and distribution lines and power generators. Regular checking for electrical theft is done to reduce non-technical losses. PPUC is doing all necessary means in order to reduce the system losses.

The table 2 below shows the generation/system loss of PPUC since FY 2014 up to FY 2019.

KWH	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Generated	79,254,846	83,110,260	85,717,446	86,115,514	89,429,875	88,615,682
Billed	66,776,130	66,923,617	70,928,769	74,032,703	75,429,455	74,824,795
Billed %	84%	81%	83%	86%	84%	84%
kWh Loss	12,478,716	16,186,643	14,788,677	12,082,811	14,000,420	13,790,887
Loss %	16%	19%	17%	14%	16%	16%

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

However, capital improvement projects (CIPs) have been put on hold since FY 2018 due to scarcity of funds. PPUC does not have enough cash-on-hand to cover its CIPs. Included in these CIP's are the \$2.5M modification of the system controls of Niigata generator in Malakal power plant and the \$1.7M replacement of Cargo Line in Aimeliik power plant. These two major improvements are urgent and necessary. In accordance with RPPL 10-19 and 10-26, PPUC is prohibited from increasing its tariff since October 2017 which has affected the Corporation's financial performance and cash reserves as it cannot recover its fuel costs thru its revenue, thus leaving it with a \$2.1 million net loss in FY 2018 and a \$2.3 million net loss this FY2019 even after receiving a \$500,000 subsidy from the Palau National Government (ROP). Moreover, \$2.5M or 43% of its maintenance account has been depleted to cover the shortfall for the cost of fuel and maintenance of the Niigata generators. A \$2.25M sinking fund in this maintenance account is an affirmative covenant in the National Development Bank of Palau (NDBP) loan, where PPUC is required to contribute a minimum of \$250,000 per annum for replacement or maintenance of the Niigata generators.

The tables below show the tariff that PPUC had been adapting since FY 2018 going in FY 2019 and the affirmative covenant with NDBP.

Table 3: EPO Tariff Schedule

EPO Tariff Schedule				
Effective January 1, 2018				
Band	kWh	Energy	Fuel	Rate
1 - Res	0 - 150	0.020	0.177	0.197
2 - Res	151 - 500	0.094	0.177	0.271
3 - Res	501 +	0.143	0.177	0.320
Com/Govt	0 - 150,000	0.143	0.177	0.320
Com/Govt	150,001 - 250,000	0.133	0.177	0.310
Com/Govt	250,001 +	0.123	0.177	0.300
		0.109	Ave Rate	0.286

Table 4: Affirmative covenant in NDBP:

AFFIRMATIVE COVENANTS	<p>1. Company to maintain a minimum net worth of \$25,000,000.00</p> <p>2. Company to maintain Accounts Receivable to Current Assets Ratio of not more than 25%.</p> <p>3. Create a sinking fund for engine/generator replacement/maintenance with contribution of a minimum of \$250,000.00 per annum to commence FY 2011.</p>
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NDBP FORM TRM 7/2005

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

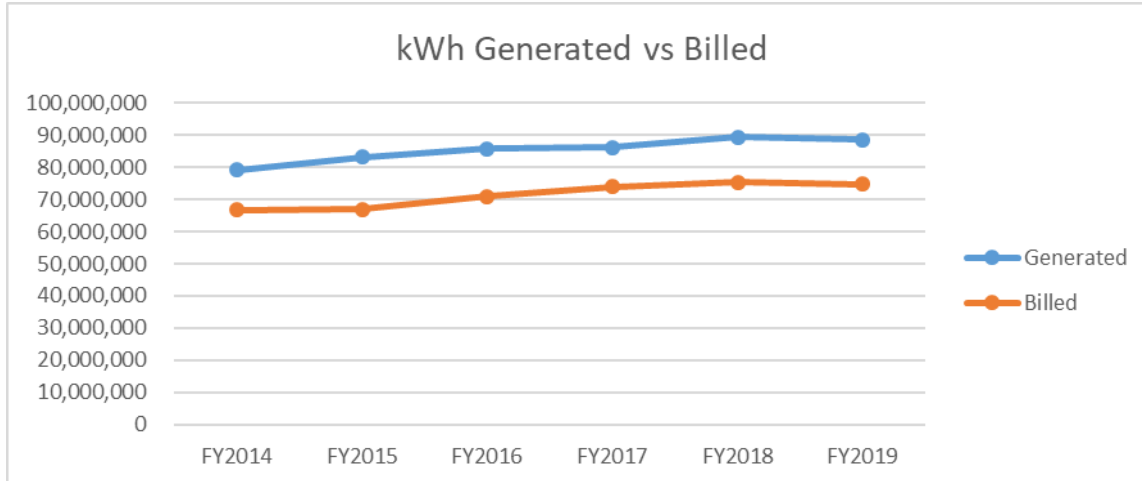
Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

The tables and charts below show the operational performance of PPUC:

Table 5. kWh Generated vs kWh Billed vs Fuel Consumption

kWh	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Generated	79,254,846	83,110,260	85,717,446	86,115,514	89,429,875	88,615,682
Billed	66,776,130	66,923,617	70,928,769	74,032,703	75,429,455	74,824,795
Fuel Consumption	5,269,583	5,740,910	5,768,507	5,767,248	5,952,863	5,973,160
% Inc/(dec) in generation		4.86%	3.14%	0.46%	3.85%	-0.91%
% Inc/(dec) in billing		0.22%	5.98%	4.38%	1.89%	-0.80%
% Inc/(dec) in fuel consumption		8.94%	0.48%	-0.02%	3.22%	0.34%

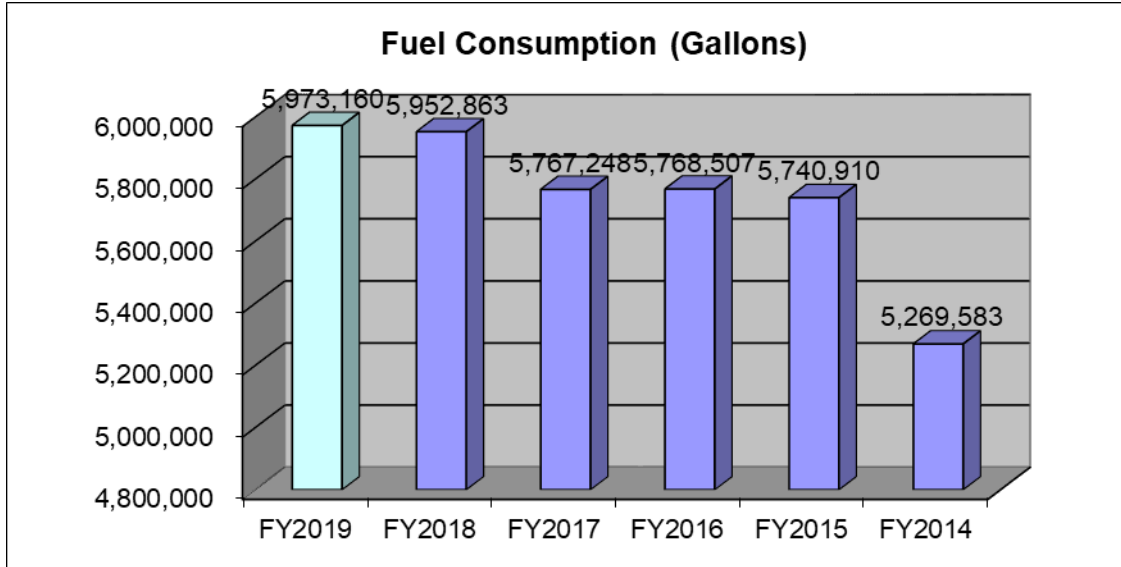
Chart 3. Kwh Generated vs Kwh Billed



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

Management's Discussion and Analysis
 Years Ended September 30, 2019 and 2018

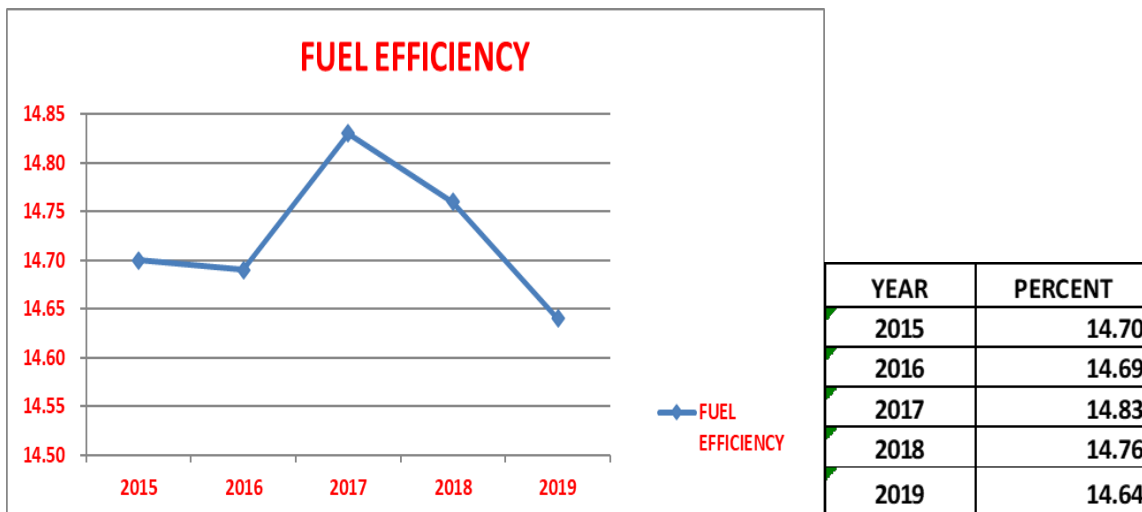
Chart 4: Fuel Consumption



KWh generated and kWh billed have an average increase of 2.3% from FY 2014 to FY 2019 while fuel consumption average increase is 2.6% from FY 2014 to FY 2019. A correction to the MD&A report in FY 2018 is the kWh billed was reported as 79,425,255 whereas the correct kWh billed for FY 2018 should be 75,425,455 kWh. This was a typo-error by the consultant who prepared the MD&A report for FY 2018. An official letter was issued by the consultant, acknowledging and correcting this typo-error. All austere measures were done by PPUC to cut down costs without sacrificing the quality of services despite the tariff prohibition.

The charts below show the fuel efficiency and change in fuel prices.

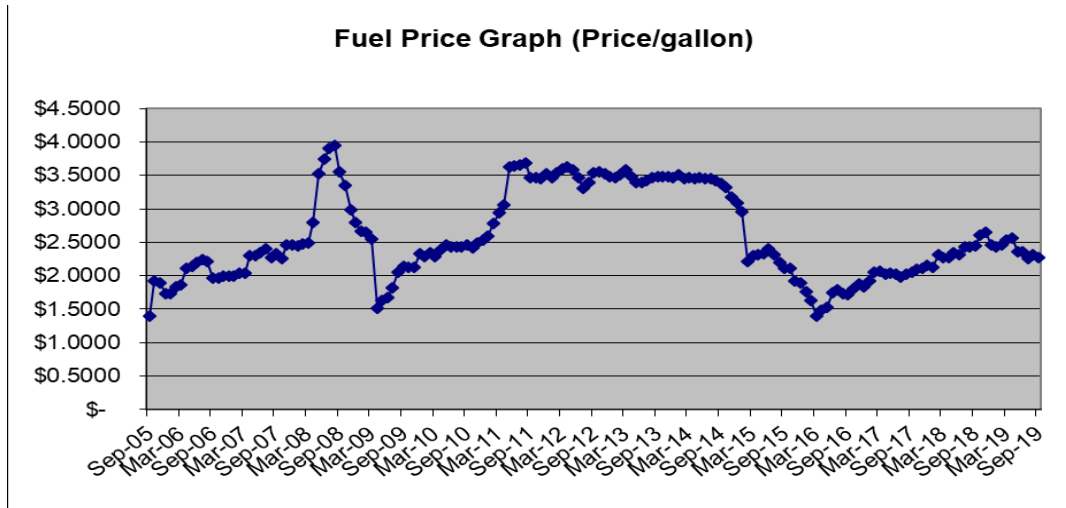
Chart 5: Fuel Efficiency



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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Chart 6: Fuel Price



The fuel efficiency begins to rise in FY 2016 and FY 2017 but begins to deflate in FY 2018 and FY 2019. Notice the changes in fuel prices which rise and fall so rapidly. It started to fall in FY 2016 and began to rise again until early quarters of FY 2019 and slowly fell by the end of September 2019.

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

EPO Financial Highlights

Table 6: EPO Statements of Revenues, Expenses and Changes in Net Position

	(Dollars in Thousands)				
ELECTRIC POWER OPERATIONS	SEPT. 30, 2019	SEPT. 30, 2018	SEPT. 30, 2017	INC/(DEC) 2019	INC/(DEC) 2018
Revenues, Expenses, and Changes in Net Position					
Operating Revenues					
Electric	22,027	22,113	19,523	(86)	2,590
Others	934	1,101	999	(167)	102
Provision for Bad Debts	(267)	(119)	(124)	(148)	5
Non-Operating Revenue/(Expenses)	258	(267)	(450)	525	183
Total Revenue	22,952	22,828	19,948	129	2,880
Operating Expenses					
Generation Fuel	14,624	14,026	11,521	598	2,505
Generation Other Costs	3,484	3,629	3,807	(145)	(178)
Depreciation	3,080	2,976	2,727	104	249
Administration	1,800	1,805	1,003	(5)	802
Dist'n & Transmission	1,618	1,590	1,379	28	211
Engineering	625	770	537	(145)	233
Renewable Energy	199	232	244	(33)	(12)
Total Operating Expenses	25,430	25,028	21,218	402	3,810
Capital Contributions	173	65	130	108	(65)
Change in Net Position	(2,305)	(2,135)	(1,140)	(170)	(995)
Beginning Net Position	36,098	38,233	39,373	(2,135)	(1,140)
Ending Net Position	33,793	36,098	38,233	(2,305)	(2,135)

The decrease in operating revenue is due to the decrease kWh billed as shown in chart 3, in addition to the prohibition to increase the tariff rate in accordance with Automatic Fuel Price Adjustment Clause (AFPAC) in the Tariff Schedule. Fuel consumption and price increased as shown in Chart 4 and 7; thus, the increase in generation fuel. These resulted in a net loss of \$2.3M in FY 2019. PPUC could not recover its expenses thru its revenue.

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Table 7: EPO Statements of Net Position

	(Dollars in Thousands)				
ELECTRIC POWER OPERATIONS	SEPT. 30, 2019	SEPT. 30, 2018	SEPT. 30, 2017	INC/(DEC) 2019	INC/(DEC) 2018
Statement of Net Position					
Current Assets	21,284	21,555	22,118	(271)	(563)
Other Assets	113	177	188	(64)	(11)
Net Utility Plant	32,378	34,861	36,295	(2,483)	(1,434)
Total Assets	53,775	56,593	58,601	(2,818)	(2,008)
Deferred Outflows from Pension	4,261	3,388	1,585	873	1,803
	58,036	59,981	60,186	(1,945)	(205)
Current Liabilities	6,323	7,051	6,708	(728)	343
Other Liabilities	3,910	4,536	5,277	(626)	(741)
Net Pension Liability	11,911	10,665	9,011	1,246	1,654
Total Liabilities	22,144	22,252	20,996	(108)	1,256
Deferred Inflows from Pension	2,099	1,631	957	468	674
	24,243	23,883	21,953	360	1,930
Invested in Capital Assets	29,402	31,483	32,409	(2,081)	(926)
Unrestricted	4,391	4,615	5,824	(224)	(1,209)
Total Net Position	33,793	36,098	38,233	(2,305)	(2,135)

Cash decreased by 26% and accounts receivable increased by 32%. \$4.4 million of its accounts receivable is WWO electric billings that is owed to EPO. Since September 2017, WWO has not been able to pay its electric bill, bloating up the accounts receivable of the electric operations and impacting EPO cash flow.

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Chart 7: EPO Accounts Receivable

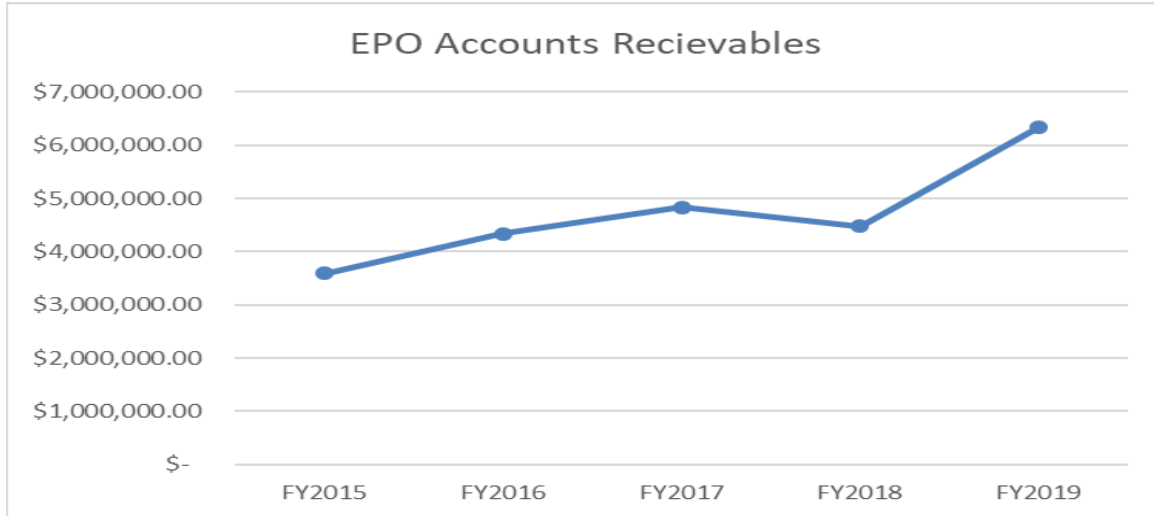
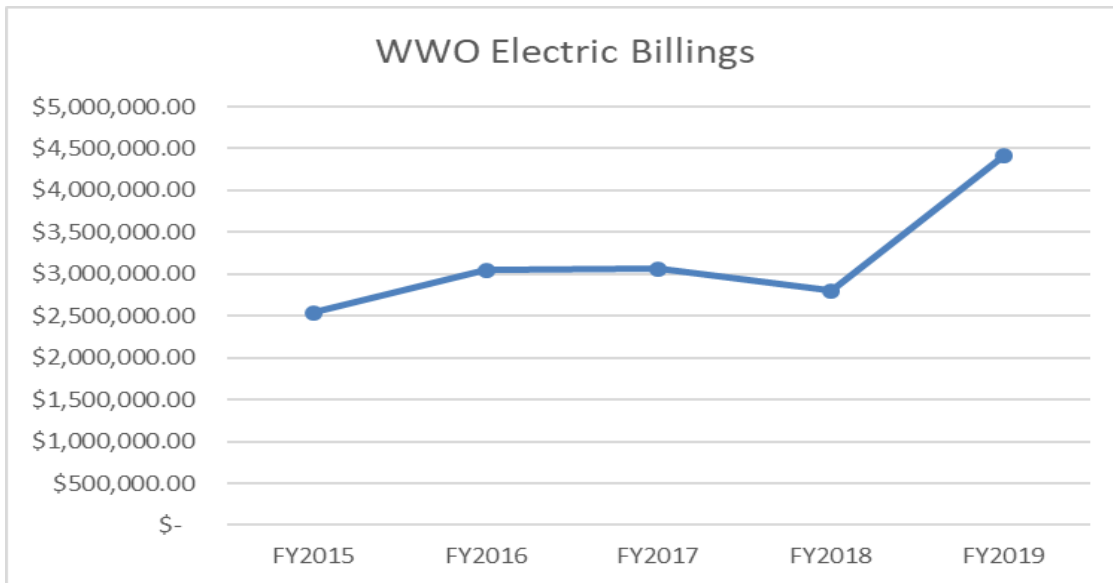


Chart 8: WWO Electric Billings



WATER AND WASTEWATER OPERATIONS

RPPL 9-4 or the Merger Act declared the merger of water and wastewater operations into the electric power operations, so the birth of the new PPUC. The main water treatment plant is located at Ngeruluobel, Airai state. The Koror-Airai Water Treatment Plant (KAWTP) feeds the five (5) water storage tanks in Airai, Ngermid, Ngerkesoaol, Ngerkebesang, and Malakal.

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

The table 8 below shows the water tanks and their area of coverage:

Water Storage Tanks	Capacity	Coverage
Airai	1M gallons	Whole state of Airai from Ordemel, Ngetkib to KB Bridge Airai side, Ochelochel
Ngermid	1M gallons	Ngesaol, Ngermid, Ngerias, Ngerbodel, Ngerchemai, and Iyebukel
Ngerkesoaol	1M gallons	Ngerkesoaol, Ikelau, Idid, Meketii, Dngeronger, Ngerbeched, M-Dock, Medalaii, including causeway store, Dr. Kuardei, WCTC Building, National Hospital, PNCC and all the houses nearby all the way to CIP Office, PC Club, Elilai
Ngerkebesang	.5M gallons	Ngerkebesang, PPR, Echang, Echol all the way to Meyuns elementary school area
Malakal	.25M gallons	all Malakal area to Minatobashi Bridge

The prime objective of PPUC-Water and Wastewater Operations (WWO) as mandated by the law is that full cost recovery is achieved. Thus, a table of tariff rate was established to take effect in April 2015. These rates were designed for PPUC in order to ensure achievement of full cost recovery and to fulfill the requirements of the ADB KASP loan agreement. However, in accordance with RPPL 10-19 and 10-26 also placing a prohibition on increasing the tariff of Water and Wastewater, this objective could not be achieved.

Table 9 below shows the tariff rate the PPUC has adopted from FY 2017 through FY 2019.

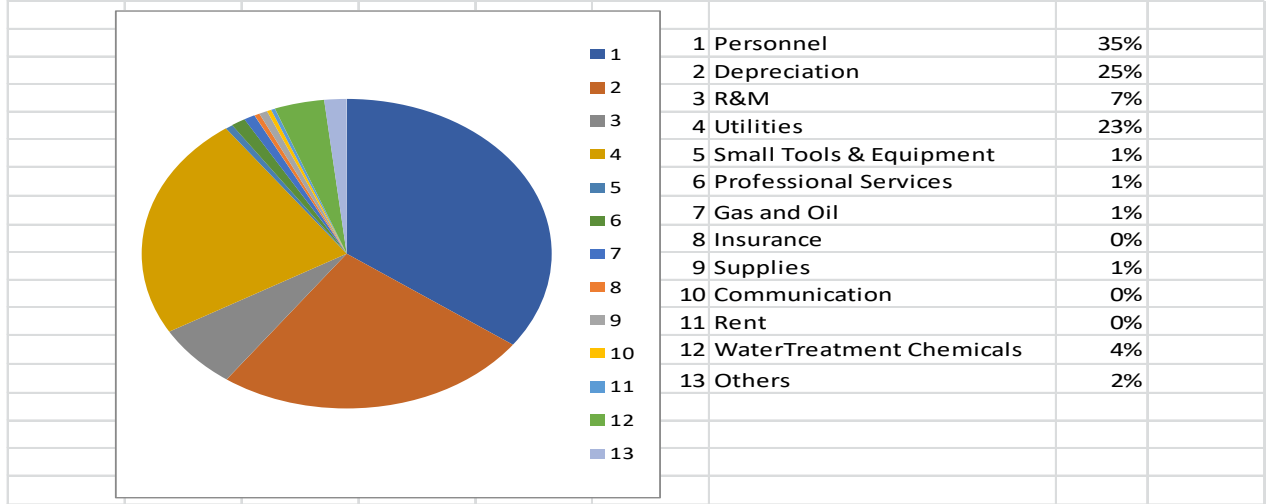
Effective February 1, 2017		
WATER RATES		
KOROR/AIRAI- WATER & SEWER RATES		
Residential Rate		
WATER RATES TIER1	<5000/GALS	\$1.59/1000gals
WATER RATES TIER2	>5001	\$6.49/1000gals
SEWER RATES	<5000/GALS	\$0.39/1000gals
SEWER RATES	>5001	\$5.94/1000gals
Commercial, Rop, and Government		
WATER RATES	0 & ABOVE	\$6.49/1000gals
SEWER RATES	0 & ABOVE	\$5.94/1000gals
BABELDAOB & YOULDAOB		
Residential Rate		
WATER RATES TIER1	<5000/GALS	\$1.06/1000gals
WATER RATES TIER2	>5001	\$1.28/1000gals
SEWER RATES	0 & ABOVE	\$0.30/1000gals
Commercial, Rop, and Government		
WATER RATES	0 & ABOVE	\$1.28/1000gals
SEWER RATES	0 & ABOVE	\$1.28/1000gals

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

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

Chart 9: Total Operating Expenses of WWO



The chart shows that the largest percentage of expenses goes to Personnel, Depreciation and Services. Services include utility expenses. WWO's power consumption is approximately \$2M per annum. As discussed in EPO financial highlights, WWO's inability to pay its power consumption has dramatically increased its accounts payable by \$4.4M and thus, affecting EPO's cash requirement in covering its operating expenses.

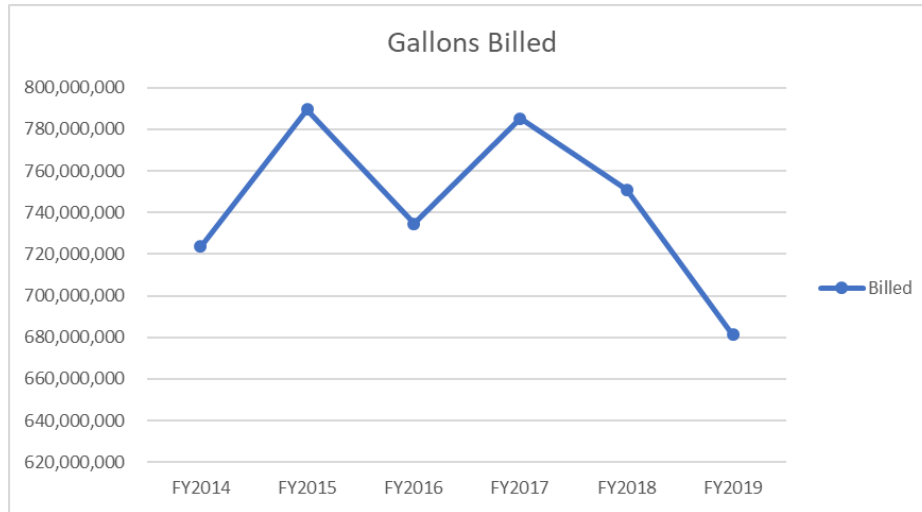
Table 10: Gallons Billed and No. of Customers

Gallons	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Billed	723,696,946	789,461,704	734,727,414	785,204,306	750,838,283	681,143,602
No. of Customers	4,417	4,572	4,598	4,671	4,765	4,848

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Chart 10: Gallons Billed



Based on the JICA study made in 2018, Non-Revenue Water (NRW) was approximately 48% which is presumably caused by water leakage. This water leakage wastes energy (electricity) for purification and transmission.

The JICA project constructed in FY 2018 aimed to reduce NRW to 37% by FY 2019. Based on the gallons billed, NRW decreased by 9% from FY 2018 to FY 2019 as WWO have been constantly monitoring water leakages. The JICA provided proper equipment and training for water leak detection. Almost 87% has connected to the new water pipeline. Approximately 13%, mostly from Meyuns, Ngermid, Ngerchemai, Iyebukel, Ngesaol, and Ngerkebesang, are still not connected to the new water pipeline. The connection was delayed since all capital improvements have been put on hold in FY 2018 and FY 2019 due to budget constraints. WWO has been operating in the red since the merger in FY 2014.

The Table 11 below shows the audited statements of revenues and expenses of WWO before capital contributions from FY 2014 to FY 2019.

	FY 2014		FY 2015		FY 2016		FY 2017		FY 2018		FY 2019	
REVENUE	\$	2,255,543	\$	3,073,272	\$	4,487,362	\$	5,570,725	\$	5,402,622	\$	5,107,150
EXPENSE	\$	7,038,385	\$	6,780,522	\$	7,631,298	\$	7,566,612	\$	9,156,244	\$	11,362,146
NET LOSS before Subsidy	\$	(4,782,842)	\$	(3,707,250)	\$	(3,143,936)	\$	(1,995,887)	\$	(3,753,622)	\$	(6,254,996)
ROP Subsidy	\$	1,700,000	\$	3,419,045	\$	2,266,993			\$	1,695,000		
Grants					\$	467,398			\$	18,900	\$	18,900
NET LOSS after Subsidy	\$	(3,082,842)	\$	(288,205)	\$	(409,545)	\$	(1,995,887)	\$	(2,039,722)	\$	(6,236,096)

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Significant improvements are needed to upgrade the systems' capacity to the domestic and commercial growth. This includes the Koror-Airai Sanitation Project (KASP) which led to a secured long-term soft-loan with the Asian Development Bank (ADB) of \$28M. The two-year construction was expected to be finished and in full operation by FY 2020. The \$28 Million was originally projected to cover both Koror and Airai. However, due to the change in prices of materials to be used in construction and budget constraints, it only covered the Koror area.

WWO Financial Highlights

Table 12: WWO Statements of Revenues, Expenses and Changes in Net Position

	(Dollars in Thousands)				
WATER AND WASTEWATER OPERATIONS	SEPT. 30, 2019	SEPT. 30, 2018	SEPT. 30, 2017	INC/(DEC) 2019	INC/(DEC) 2018
Revenues, Expenses, and Changes in Net Position					
Operating Revenues					
Water and Wastewater	4,815	5,616	5,436	(801)	180
Others	348	374	157	(26)	217
Prov'n for Bad Debts	(56)	(588)	(22)	532	(566)
Non-Operating Revenue/(Expenses)	(2,107)	1,564	(73)	(3,671)	1,637
Total Revenue	3,000	6,966	5,498	(3,966)	1,468
Operating Expenses					
Water and Wastewater	5,686	5,987	4,786	(301)	1,201
Depreciation	2,305	1,848	1,703	457	145
Administration	1,245	1,171	1,005	74	166
Total Operating Expenses	9,236	9,006	7,494	230	1,512
Capital Contributions	672	5,194	10,319	(4,522)	(5,125)
Change in Net Position	(5,564)	3,154	8,323	(8,718)	(5,169)
Beginning Net Position	20,152	16,998	8,675	3,154	8,323
Ending Net Position	14,588	20,152	16,998	(5,564)	3,154

Revenue decreased due to other non-operating expenses of \$1.4M from opportunity costs lost by contractor because of the late implementation of KASP. These charges are acknowledged and agreed by both the contractor and PPUC. Operating revenues also decreased due to the decrease in gallons billed in addition to the prohibition of increasing tariff rates in accordance with RPPL 10-19 and 10-26.

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Table 13: WWO Statements of Net Position

(Dollars in Thousands)					
WATER AND WASTEWATER OPERATIONS	SEPT. 30, 2019	SEPT. 30, 2018	SEPT. 30, 2017	INC/(DEC) 2019	INC/(DEC) 2018
Statement of Net Position					
Current Assets	4,310	4,602	5,804	(292)	(1,202)
Other Assets	168	129	116	39	13
Net Utility Plant	43,593	41,457	28,532	2,136	12,925
Total Assets	<u>48,071</u>	<u>46,188</u>	<u>34,452</u>	<u>1,883</u>	<u>11,736</u>
Deferred Outflows from Pension	2,496	2,175	1,815	321	360
	50,567	48,363	36,267	2,204	12,096
Current Liabilities	8,510	6,922	5,304	1,588	1,618
Other Liabilities	17,947	12,676	6,111	5,271	6,565
Net Pension Liability	8,065	7,389	6,995	676	394
Total Liabilities	<u>34,522</u>	<u>26,987</u>	<u>18,410</u>	<u>7,535</u>	<u>8,577</u>
Deferred Inflows from Pension	1,456	1,224	859	232	365
	35,978	28,211	19,269	7,767	8,942
Invested in Capital Assets	24,714	28,086	22,172	(3,372)	5,914
Unrestricted	(10,125)	(7,934)	(5,174)	(2,191)	(2,760)
Total Net Position	14,589	20,152	16,998	(5,563)	3,154

Current liabilities increased by 23% due to the unpaid electric billings of WWO since September 2017. Other liabilities increase by 42% due to the progress of KASP where liability is recorded upon disbursement of the costs of the project.

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Chart 11. WWO Accounts Receivable

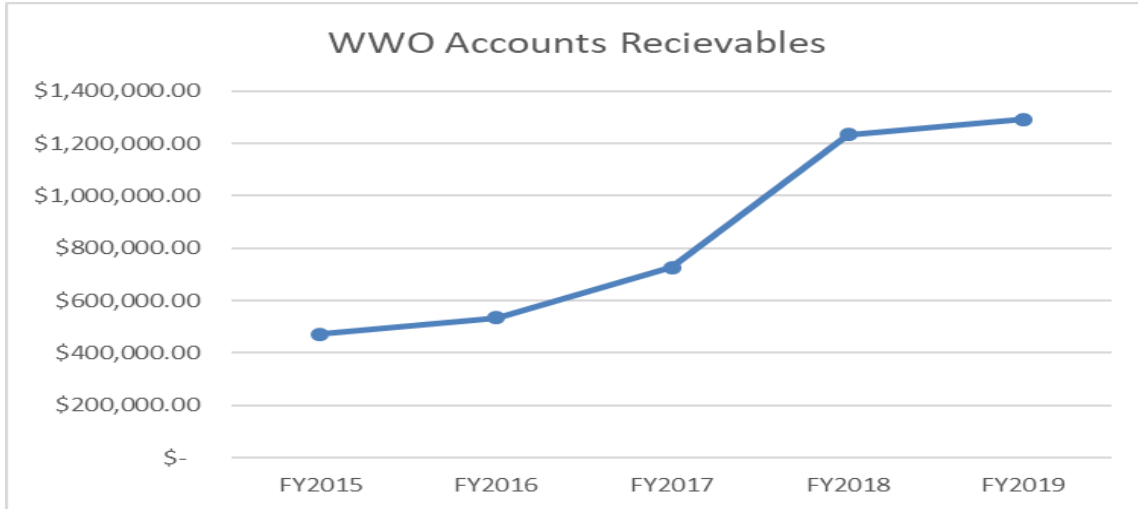
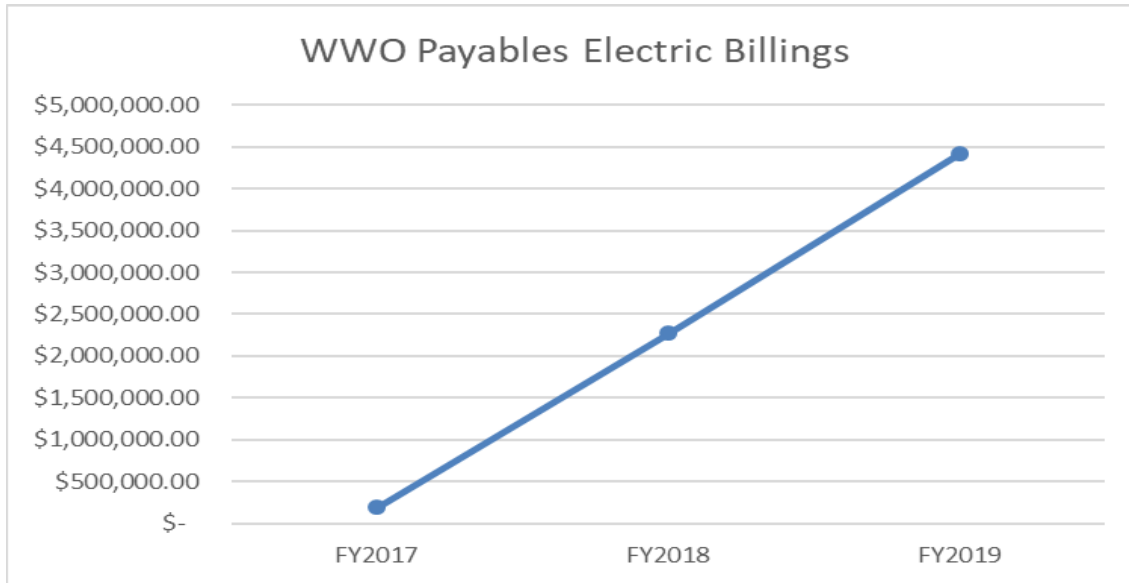


Chart 12: WWO Payables Electric Bills



CAPITAL ASSETS AND LONG-TERM DEBTS

Capital Assets

The following table summarizes PPUC's capital assets by category and accumulated depreciation, and the change therein for the years ended September 30, 2017 through 2019. The total investment in capital assets amounted to \$76 million (net of accumulated depreciation). The overall corporate capital assets decreased by \$347 thousand.

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Table 14: PPUC's Capital Assets

	Sept 30, 2019	Sept 30, 2018	Sept 30, 2017	Increase (Decrease) 2019	Increase (Decrease) 2018
CAPITAL ASSETS:					
Electric Plants:					
Electric Plants, Koror/Aimeliik	40,629	40,630	38,971	(1)	1,659
Electric Plants, Outlying States	2,239	2,141	2,473	98	(332)
Total Electric Plants	42,868	42,771	41,444	97	1,327
Accumulated Depreciation	(22,133)	(20,306)	(18,835)	(1,827)	(1,471)
Net Electric Plant	20,735	22,465	22,609	(1,730)	(144)
Transmission & Distribution System					
T&D System, Koror/Aimeliik	18,913	18,521	18,219	392	302
T&D System, Outlying States	2,120	2,120	2,127	-	(7)
Total T&D System	21,033	20,641	20,346	392	295
Accumulated Depreciation	(13,575)	(12,940)	(12,328)	(635)	(612)
Net T&D System	7,458	7,701	8,018	(243)	(317)
Water & Sewer Systems					
Water Infrastructure	40,096	40,025	24,059	71	15,966
Sewer Infrastructure	20,706	20,688	20,688	18	-
Total Water & Sewer Systems	60,802	60,713	44,747	89	15,966
Accumulated Depreciation	(38,919)	(36,803)	(35,646)	(2,116)	(1,157)
Net Water & Sewer Systems	21,883	23,910	9,101	(2,027)	14,809
Water & Sewer Transmission & Distribution System					
WVO T&D System, Koror/Babeldaob	1,381	1,381	385	-	996
Total WVO T&D System	1,381	1,381	385	-	996
Accumulated Depreciation	(220)	(146)	(98)	(74)	(48)
Net WVO T&D System	1,161	1,235	287	(74)	948
Administrative Equipment					
Buildings	3,169	3,169	2,438	-	731
Heavy Equipment & Vehicles	3,249	3,055	2,143	194	912
Tools & Maint Equipment	584	438	445	146	(7)
Computers & Office Equipment	1,436	1,443	1,419	(7)	24
Total Admin Equipment	8,438	8,105	6,445	333	1,660
Accumulated Depreciation	(4,736)	(4,048)	(3,146)	(688)	(902)
Net Admin Equipment	3,702	4,057	3,299	(355)	758
Total Capital Projects in Progress	21,032	16,950	21,512	4,082	(4,562)
TOTAL	\$ 75,971	\$ 76,318	\$ 64,826	(347)	11,492

Refer to note 7 to the financial statements for additional information about PPUC's capital assets.

Long-Term Debt

The international and local loans were used to purchase additional generation capacity and to finance major repairs and generation auxiliary equipment. The long-term soft loan secured by the ROP from Asian Development Bank was subsequently loaned to PPUC as per a subsidiary loan agreements dated March 28, 2014. Proceeds are used to upgrade the Koror sewerage system and construct wastewater treatment plant. The ADB loan amount as of September 30, 2019 reflects the total amount of the loan proceeds withdrawn and is recognized as long-term debt in the financial statements.

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

The table 15 below shows the outstanding loans of PPUC:

Outstanding Loans of PPUC		
(Dollars in thousands)		
	Original	Sept 30, 2019
International Loan	\$ 7,000	\$ 3,000
Local Loan (NDBP)	\$ 3,000	\$ 1,536
ADB Loan	\$ 28,616	\$ 18,879
TOTAL	\$ 38,616	\$ 23,415

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

Contracts amounting to \$25 million have been awarded as shown in the table 16 below:

Table 16: KASP Contractors

ADB Loan Contractors	KASP Project Components	Contract Amount ('000)
Progetti Plant, SRL	ICB-01 - Sewer Network Rehabilitation & Expansion at Malakal & Meyuns	\$ 5,277
Pacific Engineering Projects, Ltd.	ICB-02 - Koror Sewer Network Rehabilitation & Expansion Works	\$ 5,040
Pacific Engineering Projects, Ltd.	ICB-03 - Malakal Sewer Treatment Plant Upgrade	\$ 10,622
Egis Eau	Project Implementation Assistance Consultants (PIAC)	\$ 4,266
US Jetting, LLC	High Pressure Jetter for Sewage System	\$ 62
		\$ 25,267

CASH POSITION

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

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

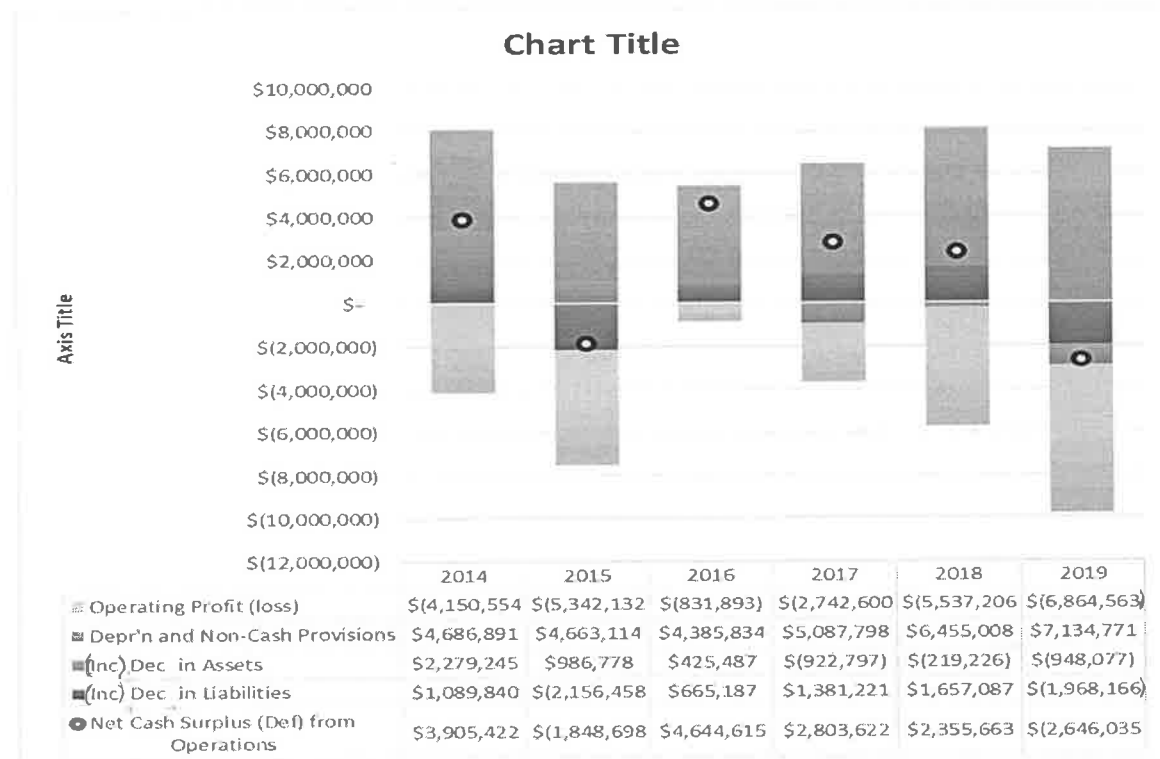
PALAU PUBLIC UTILITIES CORPORATION
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

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

The chart below shows the net operating cash surplus or deficit for the Corporation from 2014 through 2019. This cash result arises from a variety of factors. The chart attempts to show the impact of those factors. In most years, the Corporation has recorded a cash surplus. That cash surplus has mainly arisen from provisions made for depreciation, which is an expense that recognizes the cost associated with the reduction in the value of assets used in operations, but which is not a cash expense. Another contributing factor has been in the operating liabilities (an increase/decrease in what the Corporation owes to outsiders), it had been increasing in the past years but decreased in FY 2019. The major factor negatively impacting the cash result has been the operating loss recorded in each of the years. Of only minor impact has been the change in operating assets in each of the years.

The table 17 below shows the net operating cash surplus



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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

FUTURE OUTLOOK

Palau is a pristine paradise consisting of approximately 340 islands that lie in the western Pacific Ocean. It is known for its rich beaches, beautiful scenery and clean environment. However, like most island paradise, it is sensitive to the global forces of climate change. In prior years, Palau's economy is primarily based on fishing and agriculture. However, commercial developments emerged due to the coming of tourists to visit the island. PPUC, being the sole provider of utilities, had been successful in providing the whole Republic with the electric, water and wastewater services.

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

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

Current tariff rates are not adequate to meet this obligation. RPPL 10-19 and 10-26 have prohibited PPUC in raising its tariff since 2018. Moreover, the prohibition has been extended to September 2020 in accordance with RPPL 10-42. PPUC cannot adjust its tariff base on a "cost-recovery" basis, it has been using the same tariff rates since January 2018 for EPO and October 2017 for WWO. Freezing the already inadequate tariff rates imposes a compounding financial burden on the Corporation and is contrary to the spirit and intent of the legal requirements on the Corporation in RPPL 9-04 with respect to setting of tariffs.

The Corporation exists as a commercial entity. It has an obligation to recover its costs through the imposition of adequate tariff rates. In respect to water and wastewater charges, the Corporation has been increasing tariffs in a staged manner in order to fully meet costs over a five-year period. In respect to electricity services, the Corporation is required to adjust tariffs quarterly to meet changing fuel costs, which is evidenced in chart 6 (changes in fuel prices) to have been increasing since 2016. Restricting the capacity of the Corporation to adjust tariffs for the purposes of applying "adequate" charges could affect its operating performance and financial stability.

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

COVID-19

As PPUC's final audit has come to an end, the unexpected COVID-19 had arisen which was considered a pandemic and had greatly affect the economy globally. Although Palau had a zero-case on this pandemic as of April 30, 2020, still, PPUC had come up with preventive measures by upgrading the billing system into online or "e-billing" as well as the payroll into "e-payroll"; and do their share by suspending disconnection and penalty charges on non-payment of bills. We are anticipating an increase in residential consumption and decrease in commercial, because of the closing of schools and home-base work. However, the effect of this is expected to reflect in the financial reports on the month of May 2020.

CONTACTING PPUC'S FINANCIAL MANAGEMENT

This financial report is designed to provide PPUC's rate payers, creditors, funding sources, and other interested parties with a general overview of PPUC's finances operations and to demonstrate PPUC's accountability for the money it receives. Management Discussion and Analysis for the year ended September 30, 2018 is set forth in PPUC's report on the audit of financial statements which is dated May 17, 2019.

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

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

Statements of Net Position
September 30, 2019 and 2018

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	2019	2018
Utility plant:		
Depreciable utility plant	\$ 54,939,135	\$ 59,368,033
Non-depreciable utility plant	21,031,725	16,950,144
Net utility plant	75,970,860	76,318,177
Current assets:		
Cash and cash equivalents	8,768,581	11,598,369
Receivables:		
Trade	4,151,564	4,059,683
Affiliate	754,714	608,922
Contracts	100,860	125,480
Other	34,204	34,527
Less allowance for doubtful accounts	5,041,342	4,828,612
Net receivables	(1,964,072)	(1,788,987)
Prepaid expenses	310,454	508,400
Inventory, net	9,025,385	8,213,698
Total current assets	21,181,690	23,360,092
Other non-current assets:		
Contracts receivable, net of current portion	280,287	306,459
Total assets	97,432,837	99,984,728
Deferred outflows of resources from pension	6,756,793	5,562,644
	\$ 104,189,630	\$ 105,547,372
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Net position:		
Net investment in utility plant	\$ 54,115,690	\$ 59,569,487
Unrestricted	(5,734,419)	(3,319,074)
Total net position	48,381,271	56,250,413
Commitments and contingencies		
Current liabilities:		
Current portion of long-term debt	1,558,289	1,304,886
Accounts payable	5,799,435	6,981,287
Accrued expenses	1,151,129	908,774
Grant advances from the Republic of Palau	741,543	786,762
Customer deposits	1,170,307	1,193,497
Total current liabilities	10,420,703	11,175,206
Long-term debt, net of current portion	21,856,881	17,211,804
Net pension liability	19,976,072	18,054,380
Total liabilities	52,253,656	46,441,390
Deferred inflows of resources from pension	3,554,703	2,855,569
	\$ 104,189,630	\$ 105,547,372

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, 2019 and 2018

	2019	2018
Operating revenues:		
Power	\$ 19,811,131	\$ 19,941,074
Water	3,050,948	3,496,008
Wastewater	1,746,673	2,101,754
Other	1,281,991	1,475,333
Total operating revenues	25,890,743	27,014,169
Provision for uncollectible receivables	(322,863)	(706,602)
Net operating revenues	25,567,880	26,307,567
Operating expenses:		
Generation - fuel	14,624,335	14,025,809
Depreciation	5,385,231	4,823,183
Generation - other cost	3,477,620	3,617,803
Administration	2,997,307	2,921,380
Distribution and transmission	1,595,114	1,566,512
Engineering services	616,655	762,448
Renewable energy	190,785	224,187
Water operations	2,661,418	2,673,523
Wastewater operations	883,978	1,229,928
Total operating expenses	32,432,443	31,844,773
Operating loss	(6,864,563)	(5,537,206)
Nonoperating revenues (expenses):		
Operating subsidies from the Republic of Palau	500,000	1,695,000
Grants	45,000	45,000
Interest income	2,385	2,919
Interest expense	(917,380)	(424,657)
Loss on disposal of utility plant	-	(28,378)
Others	(1,479,181)	7,003
Total nonoperating revenues (expenses), net	(1,849,176)	1,296,887
Loss before capital contributions	(8,713,739)	(4,240,319)
Capital contributions:		
Grants from the Japan Government	-	5,173,965
Capital contributions from the Republic of Palau	844,597	85,708
Change in net position	(7,869,142)	1,019,354
Net position at beginning of year	56,250,413	55,231,059
Net position at end of year	\$ 48,381,271	\$ 56,250,413

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	\$ 23,875,253	\$ 27,356,134
Cash payments to suppliers for goods and services	(20,431,913)	(19,138,285)
Cash payments to employees for services	(6,089,375)	(5,862,186)
Net cash (used in) provided by operating activities	(2,646,035)	2,355,663
Cash flows from investing activities:		
Interest income	2,385	2,919
Cash flows from non-capital financing activities:		
Appropriations received from the Republic of Palau	500,000	1,695,000
Cash received from grantor agencies	45,000	236,000
Other non-capital activities	(827,355)	-
Net cash (used in) provided by non-capital financing activities	(282,355)	1,931,000
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	6,179,884	7,631,740
Principal payment on long-term debt	(1,239,437)	(1,336,462)
Interest paid on long-term debt	(648,428)	(429,645)
Appropriations received from the Republic of Palau	672,112	-
Advances from the Republic of Palau	170,000	200,000
Acquisition of utility plant	(5,037,914)	(11,146,250)
Net cash provided by (used in) capital and related financing activities	96,217	(5,080,617)
Net change in cash and cash equivalents	(2,829,788)	(791,035)
Cash and cash equivalents at beginning of year	11,598,369	12,389,404
Cash and cash equivalents at end of year	\$ 8,768,581	\$ 11,598,369
 Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	\$ (6,864,563)	\$ (5,537,206)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation	5,385,231	4,823,183
Provision for uncollectible receivables	322,863	706,602
Pension expense	1,426,677	925,223
(Increase) decrease in assets:		
Receivables:		
Trade	(239,659)	(184,657)
Affiliate	(145,792)	66,853
Contracts	50,792	50,320
Other	323	(7,609)
Prepaid expenses	197,946	(295,286)
Inventory	(811,687)	151,153
Increase (decrease) in liabilities:		
Accounts payable	(1,875,645)	1,430,985
Accrued expenses	(26,597)	106,551
Grant advances from the Republic of Palau	(42,734)	(30,352)
Customer deposits	(23,190)	149,903
Net cash (used in) provided by operating activities	\$ (2,646,035)	\$ 2,355,663

Non-cash transactions:

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

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2019 and 2018

(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.

Inventory

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

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

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Utility Plant

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

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

No capitalized interest was recognized during the years ended September 30, 2019 and 2018 due to adoption of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

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. Increases in the variable fuel charge have been limited due to passage of RPPL 10-42 in September 2019 (note 12). 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, 2019 and 2018 were \$1,130,774 and \$1,074,885, respectively.

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.

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

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Pensions

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Compensated Absences

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

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, 2019 PPUC implemented the following pronouncements:

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

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB 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.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on PPUC's 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 June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

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

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. PPUC early implemented GASB 89, *Accounting for Interest Cost Incurred before the End of Construction Period* in the year ended September 30, 2018. Management has yet to ascertain whether implementation of the other statements will be postponed as provided in GASB Statement No. 95.

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

Notes to Financial Statements
September 30, 2019 and 2018

(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, 2019 and 2018, cash and cash equivalents were \$8,768,581 and \$11,598,369, respectively, and the corresponding bank balances were \$9,078,579 and \$12,989,415, respectively, that are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2019 and 2018, bank deposits of \$750,000 were FDIC insured. PPUC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage and deposits in financial institutions not subject to FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

(4) Grants

PPUC is a subrecipient of federal grants received by the ROP from a U.S. federal agency. In May 2015, the Japan Government extended a grant to the Government of the ROP for a project to improve the water supply system in Koror and Airai areas for up to 1,843,000,000 Yen or approximately \$17 million. As part of the grant, PPUC and the ROP entered into agreements with a consultant and a contractor to execute the project. The project is completed in 2019.

Grants received for the years ended September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
U.S. Federal Government	\$ 45,000	\$ 45,000
Japan Government	<u> -</u>	<u>5,173,965</u>
	\$ <u>45,000</u>	\$ <u>5,218,965</u>

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

(5) Receivable from a Local Bank

At September 30, 2019 and 2018, PPUC has uninsured deposits of \$1,896,036 and \$1,974,856, respectively, with a bank that went into receivership on November 7, 2006. These deposits were fully provided with an allowance at September 30, 2019 and 2018.

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

Notes to Financial Statements
September 30, 2019 and 2018

(6) Inventory

Inventory at September 30, 2019 and 2018, consists of the following:

	<u>2019</u>	<u>2018</u>
Generation parts and supplies	\$ 6,945,659	\$ 6,009,601
Fuel	1,540,543	2,023,171
Lubricants	50,707	63,295
Chemicals	203,090	311,112
Water distribution parts and supplies	<u>815,824</u>	<u>336,513</u>
	9,555,823	8,743,692
Allowance for slow moving and obsolete inventory	<u>(530,438)</u>	<u>(529,994)</u>
	<u>\$ 9,025,385</u>	<u>\$ 8,213,698</u>

Included in the allowance for slow moving and obsolete inventory was \$497,841 at September 30, 2019 and 2018 provided for generation parts and supplies inventory maintained in the Aimeliik power plant that caught fire in November 2011.

(7) Utility Plant

Utility plant consists of the following detailed balances at September 30, 2019 and 2018:

	<u>Estimated Useful Lives</u>	Balance at October 1, 2018	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September 30, 2019
Depreciable utility plant:					
Electric plant	3 - 25 years	\$ 43,227,832	\$ 139,395	\$ (41,164)	\$ 43,326,063
Water system	20 years	41,483,327	71,500	-	41,554,827
Sewer system	20 years	20,688,409	17,496	-	20,705,905
General support equipment	2 - 30 years	27,511,194	733,855	(1,664)	28,243,385
Administrative equipment	2 - 10 years	<u>717,928</u>	<u>-</u>	<u>(5,913)</u>	<u>712,015</u>
		133,628,690	962,246	(48,741)	134,542,195
Less accumulated depreciation		<u>(74,260,657)</u>	<u>(5,385,231)</u>	<u>42,828</u>	<u>(79,603,060)</u>
		59,368,033	(4,422,985)	(5,913)	54,939,135
Non-depreciable utility plant:					
Construction in progress		<u>16,950,144</u>	<u>4,843,619</u>	<u>(762,038)</u>	<u>21,031,725</u>
		<u>\$ 76,318,177</u>	<u>\$ 420,634</u>	<u>\$ (767,951)</u>	<u>\$ 75,970,860</u>
	<u>Estimated Useful Lives</u>	Balance at October 1, 2017	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September 30, 2018
Depreciable utility plant:					
Electric plant	3 - 25 years	\$ 41,444,057	\$ 1,809,204	\$ (25,429)	\$ 43,227,832
Water system	20 years	24,059,524	17,423,803	-	41,483,327
Sewer system	20 years	20,688,409	-	-	20,688,409
General support equipment	2 - 30 years	26,017,507	1,622,133	(128,446)	27,511,194
Administrative equipment	2 - 10 years	<u>691,433</u>	<u>26,495</u>	<u>-</u>	<u>717,928</u>
		112,900,930	20,881,635	(153,875)	133,628,690
Less accumulated depreciation		<u>(69,586,265)</u>	<u>(4,823,183)</u>	<u>148,791</u>	<u>(74,260,657)</u>
		43,314,665	16,058,452	(5,084)	59,368,033
Non-depreciable utility plant:					
Construction in progress		<u>21,511,564</u>	<u>15,798,845</u>	<u>(20,360,265)</u>	<u>16,950,144</u>
		<u>\$ 64,826,229</u>	<u>\$ 31,857,297</u>	<u>\$ (20,365,349)</u>	<u>\$ 76,318,177</u>

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

Notes to Financial Statements
September 30, 2019 and 2018

(8) Long-Term Debt

	<u>2019</u>	<u>2018</u>
<p>On September 4, 2006, PPUC entered into a loan with a foreign bank not to exceed \$7,000,000 with interest at 3.5% per annum, due on December 11, 2026, to finance the purchase of portable generators, a crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators. The loan is guaranteed by the 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.</p>	\$ 3,000,000	\$ 3,400,000
<p>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.</p>	1,536,139	1,745,955
<p>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.</p>	18,879,031	13,290,735

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

Notes to Financial Statements
September 30, 2019 and 2018

(8) Long-Term Debt, Continued

	<u>2019</u>	<u>2018</u>
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.	-	<u>80,000</u>
Total long-term debt	23,415,170	18,516,690
Less current maturities	<u>(1,558,289)</u>	<u>(1,304,886)</u>
	<u>\$ 21,856,881</u>	<u>\$ 17,211,804</u>

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

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,558,289	\$ 759,664	\$ 2,317,953
2021	1,611,896	721,633	2,333,529
2022	1,666,576	666,533	2,333,109
2023	1,686,971	601,258	2,288,229
2024	1,708,858	535,856	2,244,714
2025 - 2029	6,234,202	1,908,801	8,143,003
2030 - 2034	5,019,330	1,092,786	6,112,116
2035 - 2039	<u>3,929,048</u>	<u>314,916</u>	<u>4,243,964</u>
	<u>\$ 23,415,170</u>	<u>\$ 6,601,447</u>	<u>\$ 30,016,617</u>

Movements in long-term liabilities for the years ended September 30, 2019 and 2018, are as follows:

	<u>Balance at</u> <u>October 1,</u> <u>2018</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance at</u> <u>September</u> <u>30, 2019</u>	<u>Balance Due</u> <u>in One Year</u>
Long-term debt	\$ 18,516,690	\$ 6,137,917	\$ (1,239,437)	\$ 23,415,170	\$ 1,558,289
Net pension liability	<u>18,054,380</u>	<u>1,921,692</u>	<u>-</u>	<u>19,976,072</u>	<u>-</u>
	<u>\$ 36,571,070</u>	<u>\$ 8,059,609</u>	<u>\$ (1,239,437)</u>	<u>\$ 43,391,242</u>	<u>\$ 1,558,289</u>
	<u>Balance at</u> <u>October 1,</u> <u>2017</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance at</u> <u>September</u> <u>30, 2018</u>	<u>Balance Due</u> <u>in One Year</u>
Long-term debt	\$ 12,221,412	\$ 7,631,740	\$ (1,336,462)	\$ 18,516,690	\$ 1,304,886
Net pension liability	<u>16,006,220</u>	<u>2,048,160</u>	<u>-</u>	<u>18,054,380</u>	<u>-</u>
	<u>\$ 28,227,632</u>	<u>\$ 9,679,900</u>	<u>\$ (1,336,462)</u>	<u>\$ 36,571,070</u>	<u>\$ 1,304,886</u>

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

Notes to Financial Statements
September 30, 2019 and 2018

(9) Pension Plan

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, 2017 (the valuation date):

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

Summary of the Principal Provisions of the Plan:

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

Eligibility to Participate:

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

Service:

Vesting Service: Includes membership service and prior service credit.

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

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

Notes to Financial Statements
September 30, 2019 and 2018

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Service, Continued:

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

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.

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

Notes to Financial Statements
September 30, 2019 and 2018

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued:

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

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

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

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

- 1/12th 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.

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

Notes to Financial Statements
September 30, 2019 and 2018

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued:

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.

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.

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

Notes to Financial Statements
September 30, 2019 and 2018

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Employer and Other Contributions, Continued:

PPUC contributed \$284,837, \$276,420 and \$234,572 to the Fund during the fiscal years 2019, 2018 and 2017, 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, 2018, for the same measurement date, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method	
Amortization Method:	Level dollar, open with remaining amortization period of 30 years	
Asset Valuation Method:	Market value of assets	
Investment Income:	7.5% per year, net of investment expenses, including price inflation	
Inflation:	3.0%	
Interest on Member Contributions:	5.0% per year	
Salary Increase:	3.0% per year	
Expenses:	\$300,000 each year	
Mortality:	RP 2000 Combined Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years	
Termination of Employment:	5% for ages 20 to 39; none for all other ages	
Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%
Retirement Age:	100% at age 60	

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

Notes to Financial Statements
September 30, 2019 and 2018

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued:

Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor
Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.
Duty vs Non-duty related disability:	100% Duty related
Refund of Contributions:	80% of terminated vested members elect a refund of contributions
Final Average Earnings:	Deferred vested members missing data for their final average earnings are assumed to have earned the average amount of current deferred vested members.
Benefits:	Retirees and beneficiaries missing data for their monthly benefit amount are assumed to receive the average benefit of current retirees or beneficiaries, respectively.

Investment Rate of Return:

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

As of September 30, 2018, the arithmetic real rates of return for each major investment class are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
US Large Cap Equity	20%	8.70%
US Small/Mid Cap Equity	5%	9.13%
International Equity	15%	9.19%
Emerging Markets	10%	12.52%
US Aggregate Fixed Income	35%	3.82%
Global Broad Fixed Income	10%	3.40%
Global REIT	<u>5%</u>	8.33%
	<u>100%</u>	

Discount Rate:

The discount rate used to measure the total pension liability was 4.16% at the current measurement date and 3.62% 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 2023 for the 2018 measurement date. For years on or after 2023, a discount rate of 4.09% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index Rate.

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

Notes to Financial Statements
September 30, 2019 and 2018

(9) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

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, 2018, calculated using the discount rate of 4.16% as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (3.16%) or 1.00% higher (5.16%) from the current rate.

	1% Decrease <u>3.16%</u>	Current Single Discount Rate Assumption <u>4.16%</u>	1% Increase <u>5.16%</u>
EPO	\$ 13,699,046	\$ 11,911,433	\$ 10,420,638
WWO	<u>9,274,942</u>	<u>8,064,639</u>	<u>7,055,296</u>
	<u>\$ 22,973,988</u>	<u>\$ 19,976,072</u>	<u>\$ 17,475,934</u>

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

Pension Liability:

As of September 30, 2019 and 2018, PPUC's proportionate share of the ROP net pension liability and PPUC's proportion of the ROP overall liability is as follows:

	<u>Proportionate share of the net pension liability</u>	<u>Proportion of the overall liability</u>
2019:		
EPO	\$ 11,911,433	4.75%
WWO	<u>8,064,639</u>	3.21%
	<u>\$ 19,976,072</u>	
2018:		
EPO	\$ 10,665,306	4.11%
WWO	<u>7,389,074</u>	2.85%
	<u>\$ 18,054,380</u>	

Pension Expense:

For the years ended September 30, 2019 and 2018, PPUC recognized pension expense as follows:

	<u>2019</u>	<u>2018</u>
EPO	\$ 1,010,262	\$ 696,083
WWO	<u>703,872</u>	<u>523,346</u>
	<u>\$ 1,714,134</u>	<u>\$ 1,219,429</u>

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

Notes to Financial Statements
September 30, 2019 and 2018

(9) Pension Plan, 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:

At September 30, 2019 and 2018, PPUC reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2019</u>		<u>2018</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>EPO:</u>				
Changes of assumptions	\$ 1,065,012	\$ 1,644,128	\$ 1,247,088	\$ 1,010,348
Net difference between projected and actual earnings on pension plan investments	33,904	51,906	58,718	52,120
Difference between expected and actual experience	939,326	177,869	981,821	208,453
Contributions subsequent to the measurement date	158,096	-	154,508	-
Changes in proportion and difference between EPO contributions and proportionate share of contributions	<u>2,064,642</u>	<u>224,461</u>	<u>945,744</u>	<u>360,181</u>
	<u>4,260,980</u>	<u>2,098,364</u>	<u>3,387,879</u>	<u>1,631,102</u>
<u>WWO:</u>				
Changes of assumptions	721,067	1,113,157	864,000	699,983
Net difference between projected and actual earnings on pension plan investments	22,955	35,143	40,681	36,109
Difference between expected and actual experience	635,971	120,426	680,219	144,419
Contributions subsequent to the measurement date	126,742	-	121,912	-
Changes in proportion and difference between WWO contributions and proportionate share of contributions	<u>989,078</u>	<u>187,613</u>	<u>467,953</u>	<u>343,956</u>
	<u>2,495,813</u>	<u>1,456,339</u>	<u>2,174,765</u>	<u>1,224,467</u>
	<u>\$ 6,756,793</u>	<u>\$ 3,554,703</u>	<u>\$ 5,562,644</u>	<u>\$ 2,855,569</u>

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, 2019 will be recognized in pension expense as follows:

Year Ending September 30,

EPO:	
2020	\$ 484,684
2021	401,153
2022	396,875
2023	407,399
2024	230,985
Thereafter	<u>83,424</u>
	<u>2,004,520</u>

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

Notes to Financial Statements
September 30, 2019 and 2018

(9) Pension Plan, 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:

WWO:	
2020	173,588
2021	210,522
2022	227,050
2023	204,977
2024	62,396
Thereafter	<u>34,199</u>
	<u>912,732</u>
	\$ <u>2,917,252</u>

(10) Related Party Transactions

Sale of Utility Services

Utility services of \$6,095,772 and \$6,177,355 were rendered to the ROP for the years ended September 30, 2019 and 2018, respectively. PPUC provides utility services to the ROP at the same rates charged to third parties.

Receivables of \$570,864 and \$425,072 (excluding unbilled receivables of \$310,879 and \$319,164 as of September 30, 2019 and 2018, respectively) are due from the ROP for utility services as of September 30, 2019 and 2018, respectively, and are included in the receivable from affiliate in the accompanying statements of net position. Of these receivables, \$124,776 and \$126,659 as of September 30, 2019 and 2018, 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).

Subsidies from the ROP

As part of the transfer agreement of the WWO (see note 1), the ROP was to transfer all grants, appropriations and authorized loan proceeds to PPUC to cover WWO operating costs. For the years ended September 30, 2019 and 2018, PPUC recognized \$0 and \$1,695,000, respectively, of WWO operating subsidies from the ROP.

Due to restriction on PPUC's ability to increase its electricity tariffs, ROP provided \$500,000 appropriation to help reduce the impact of rising fuel prices. ROP also provided a one-time appropriation of \$672,112 for principal and interest payments of the loans.

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

Notes to Financial Statements
September 30, 2019 and 2018

(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, 2019, PPUC has various on-going construction contracts with a total contract price of \$28 million of which \$20 million is recorded as construction in progress.

(12) Contingencies

Self-Insurance

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

Utility Charge Credits

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

Litigation

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

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

Notes to Financial Statements
September 30, 2019 and 2018

(12) Contingencies, Continued

Pension Plan Net Position

The Republic of Palau Civil Service Pension Trust Fund's actuarial valuation has determined that the Fund's fiduciary net position will be negative by 2023 if no changes are made in contribution and/or benefits.

Electric Tariff Restrictions

RPPL 10-42, signed into law in September 2019, restricts PPUC's ability to increase its electricity tariffs to recover increases in fuel costs until October 1, 2020.

Construction Delays

PPUC has \$28 million of construction contracts in relation to sanitation projects in Koror and Airai areas. Due to delays in the construction, PPUC was billed for a total of \$1.5 million in 2019, included in the nonoperating expenses in the accompanying statement of revenues, expenses and changes in net position, representing opportunity costs lost by the contractor. As construction is still ongoing, additional charges may be billed to PPUC for delays.

(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

WVO incurred an operating loss of \$4,129,517 and \$3,603,883 for the years ended September 30, 2019 and 2018, respectively. PPUC will continue to depend on ROP subsidies until the WVO has achieved a full cost recovery as mandated by the RPPL 9-4. In addition, PPUC is in discussion with the ROP to ease the tariff increase restriction (note 12). Management is also reducing costs to essential expenditures.

(15) Subsequent Event

As a result of COVID-19 corona virus, governments worldwide implemented actions to restrict travel and economic activities. Uncertainties have arisen which may have negative impact on PPUC's financial and operational results. Such potential impacts are unknown at this time.

Management has considered subsequent events through July 31, 2020, upon which the financial statements were available to be issued. There were no other material subsequent events that would require recognition or disclosure in the financial statements for the year-ended September 30, 2019.

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*

	2019	2018	2017	2016	2015	2014
Total Republic of Palau net pension liability	\$ 250,868,784	\$ 259,395,005	\$ 249,453,960	\$ 215,546,176	\$ 204,281,232	\$ 182,080,332
PPUC's proportionate share of the net pension liability	\$ 19,976,072	\$ 18,054,380	\$ 16,006,220	\$ 13,674,468	\$ 13,135,896	\$ 12,920,967
PPUC's proportion of the net pension liability	7.96%	6.96%	6.42%	6.34%	6.43%	7.10%
PPUC's covered-employee payroll**	\$ 4,671,500	\$ 4,032,283	\$ 3,398,382	\$ 3,076,703	\$ 3,022,976	\$ 2,964,580
PPUC's proportionate share of the net pension liability as percentage of its covered employee payroll	427.62%	447.75%	471.00%	444.45%	434.54%	435.84%
Plan fiduciary net position as a percentage of the total pension liability	10.24%	10.18%	10.55%	11.54%	14.01%	16.00%

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

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

See Accompanying Independent Auditors' Report.

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 1,378,558	\$ 1,195,686	\$ 925,093	\$ 691,501	\$ 683,121	\$ 714,295
Contribution in relation to the actuarially determined contribution	<u>\$ 280,290</u>	<u>241,937</u>	<u>201,110</u>	<u>183,373</u>	<u>178,010</u>	<u>178,540</u>
Contribution deficiency	<u>\$ 1,098,268</u>	<u>\$ 953,749</u>	<u>\$ 723,983</u>	<u>\$ 508,128</u>	<u>\$ 505,111</u>	<u>\$ 535,755</u>
PPUC's covered-employee payroll **	<u>\$ 4,671,500</u>	<u>\$ 4,032,283</u>	<u>\$ 3,398,382</u>	<u>\$ 3,076,703</u>	<u>\$ 3,022,976</u>	<u>\$ 2,964,580</u>
Contribution as a percentage of covered-employee payroll	6.00%	6.00%	5.92%	5.96%	5.89%	6.02%

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

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

See Accompanying Independent Auditors' Report.

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

Combining Statement of Net Position
September 30, 2019

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Utility plant:				
Depreciable utility plant	\$ 31,416,866	\$ 23,522,269	\$ -	\$ 54,939,135
Non-depreciable utility plant	961,138	20,070,587	-	21,031,725
Net utility plant	<u>32,378,004</u>	<u>43,592,856</u>	<u>-</u>	<u>75,970,860</u>
Current assets:				
Cash and cash equivalents	6,343,485	2,425,096	-	8,768,581
Receivables:				
Trade	2,733,447	1,418,117	-	4,151,564
Affiliate	5,057,652	109,095	(4,412,033)	754,714
Contracts	57,151	43,709	-	100,860
Other	27,659	6,545	-	34,204
	7,875,909	1,577,466	(4,412,033)	5,041,342
Less allowance for doubtful accounts	(1,108,071)	(856,001)	-	(1,964,072)
Net receivables	<u>6,767,838</u>	<u>721,465</u>	<u>(4,412,033)</u>	<u>3,077,270</u>
Prepaid expenses	165,875	144,579	-	310,454
Inventory, net	8,006,471	1,018,914	-	9,025,385
Total current assets	<u>21,283,669</u>	<u>4,310,054</u>	<u>(4,412,033)</u>	<u>21,181,690</u>
Other non-current assets:				
Contracts receivable, net of current portion	112,776	167,511	-	280,287
Total assets	<u>53,774,449</u>	<u>48,070,421</u>	<u>(4,412,033)</u>	<u>97,432,837</u>
Deferred outflows of resources from pension	4,260,980	2,495,813	-	6,756,793
	<u>\$ 58,035,429</u>	<u>\$ 50,566,234</u>	<u>\$ (4,412,033)</u>	<u>\$ 104,189,630</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Net position:				
Net investment in utility plant	\$ 29,401,865	\$ 24,713,825	\$ -	\$ 54,115,690
Unrestricted	4,391,063	(10,125,482)	-	(5,734,419)
Total net position	<u>33,792,928</u>	<u>14,588,343</u>	<u>-</u>	<u>48,381,271</u>
Commitments and contingencies				
Current liabilities:				
Current portion of long-term debt	625,931	932,358	-	1,558,289
Accounts payable	3,606,664	6,604,804	(4,412,033)	5,799,435
Accrued expenses	442,324	708,805	-	1,151,129
Grant advances	641,543	100,000	-	741,543
Customer deposits	1,006,034	164,273	-	1,170,307
Total current liabilities	<u>6,322,496</u>	<u>8,510,240</u>	<u>(4,412,033)</u>	<u>10,420,703</u>
Long-term debt, net of current portion	3,910,208	17,946,673	-	21,856,881
Net pension liability	11,911,433	8,064,639	-	19,976,072
Total liabilities	<u>22,144,137</u>	<u>34,521,552</u>	<u>(4,412,033)</u>	<u>52,253,656</u>
Deferred inflows of resources from pension	2,098,364	1,456,339	-	3,554,703
	<u>\$ 58,035,429</u>	<u>\$ 50,566,234</u>	<u>\$ (4,412,033)</u>	<u>\$ 104,189,630</u>

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, 2019

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Operating revenues:				
Power	\$ 22,027,372	\$ -	\$ (2,216,241)	\$ 19,811,131
Water	-	3,068,413	(17,465)	3,050,948
Wastewater	-	1,746,673	-	1,746,673
Other	934,046	347,945	-	1,281,991
Total operating revenues	<u>22,961,418</u>	<u>5,163,031</u>	<u>(2,233,706)</u>	<u>25,890,743</u>
Provision for uncollectible receivables	<u>(266,982)</u>	<u>(55,881)</u>	<u>-</u>	<u>(322,863)</u>
Net operating revenues	<u>22,694,436</u>	<u>5,107,150</u>	<u>(2,233,706)</u>	<u>25,567,880</u>
Operating expenses:				
Generation - fuel	14,624,335	-	-	14,624,335
Depreciation	3,079,849	2,305,382	-	5,385,231
Generation - other cost	3,483,707	-	(6,087)	3,477,620
Administration	1,800,095	1,244,717	(47,505)	2,997,307
Distribution and transmission	1,617,714	-	(22,600)	1,595,114
Engineering services	624,826	-	(8,171)	616,655
Renewable energy	198,956	-	(8,171)	190,785
Water operations	-	4,404,839	(1,743,421)	2,661,418
Wastewater operations	-	1,281,729	(397,751)	883,978
Total operating expenses	<u>25,429,482</u>	<u>9,236,667</u>	<u>(2,233,706)</u>	<u>32,432,443</u>
Operating loss	<u>(2,735,046)</u>	<u>(4,129,517)</u>	<u>-</u>	<u>(6,864,563)</u>
Nonoperating revenues (expenses):				
Operating subsidies from the Republic of Palau	500,000	-	-	500,000
Grants	26,100	18,900	-	45,000
Interest income	2,048	337	-	2,385
Interest expense	(235,627)	(681,753)	-	(917,380)
Others	<u>(35,118)</u>	<u>(1,444,063)</u>	<u>-</u>	<u>(1,479,181)</u>
Total nonoperating revenues (expenses), net	<u>257,403</u>	<u>(2,106,579)</u>	<u>-</u>	<u>(1,849,176)</u>
Loss before capital contributions	<u>(2,477,643)</u>	<u>(6,236,096)</u>	<u>-</u>	<u>(8,713,739)</u>
Capital contribution:				
Capital contributions from the Republic of Palau	<u>172,485</u>	<u>672,112</u>	<u>-</u>	<u>844,597</u>
Change in net position	<u>(2,305,158)</u>	<u>(5,563,984)</u>	<u>-</u>	<u>(7,869,142)</u>
Net position at beginning of year	<u>36,098,086</u>	<u>20,152,327</u>	<u>-</u>	<u>56,250,413</u>
Net position at end of year	<u>\$ 33,792,928</u>	<u>\$ 14,588,343</u>	<u>\$ -</u>	<u>\$ 48,381,271</u>

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, 2019

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Cash flows from operating activities:				
Cash received from customers	\$ 21,010,446	\$ 5,098,513	\$ (2,233,706)	\$ 23,875,253
Cash payments to suppliers for goods and services	(19,022,806)	(3,642,813)	2,233,706	(20,431,913)
Cash payments to employees for services	(3,453,811)	(2,635,564)	-	(6,089,375)
Net cash used in operating activities	<u>(1,466,171)</u>	<u>(1,179,864)</u>	<u>-</u>	<u>(2,646,035)</u>
Cash flows from investing activities:				
Interest income	2,048	337	-	2,385
Cash flows from non-capital financing activities:				
Appropriations received from the Republic of Palau	500,000	-	-	500,000
Cash received from grantor agencies	26,100	18,900	-	45,000
Other non-capital activities	29,882	(857,237)	-	(827,355)
Net cash provided by (used in) non-capital financing activities	<u>555,982</u>	<u>(838,337)</u>	<u>-</u>	<u>(282,355)</u>
Cash flows from capital and related financing activities:				
Proceeds from issuance of long-term debt	-	6,179,884	-	6,179,884
Principal payment on long-term debt	(609,816)	(629,621)	-	(1,239,437)
Interest paid on long-term debt	(241,022)	(407,406)	-	(648,428)
Appropriations received from the Republic of Palau	-	672,112	-	672,112
Advances from the Republic of Palau	70,000	100,000	-	170,000
Acquisition of utility plant	(596,314)	(4,441,600)	-	(5,037,914)
Net cash (used in) provided by capital and related financing activities	<u>(1,377,152)</u>	<u>1,473,369</u>	<u>-</u>	<u>96,217</u>
Net change in cash and cash equivalents	(2,285,293)	(544,495)	-	(2,829,788)
Cash and cash equivalents at beginning of year	<u>8,628,778</u>	<u>2,969,591</u>	<u>-</u>	<u>11,598,369</u>
Cash and cash equivalents at end of year	<u>\$ 6,343,485</u>	<u>\$ 2,425,096</u>	<u>\$ -</u>	<u>\$ 8,768,581</u>
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	\$ (2,735,046)	\$ (4,129,517)	\$ -	\$ (6,864,563)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	3,079,849	2,305,382	-	5,385,231
Provision for uncollectible receivables	266,982	55,881	-	322,863
Pension expense	840,288	586,389	-	1,426,677
(Increase) decrease in assets:				
Receivables:				
Trade	(162,788)	(76,871)	-	(239,659)
Affiliate	(1,764,130)	3,105	1,615,233	(145,792)
Contracts	80,594	(29,802)	-	50,792
Other	(200)	523	-	323
Prepaid expenses	69,826	128,120	-	197,946
Inventory	(440,398)	(371,289)	-	(811,687)
Increase (decrease) in liabilities:				
Accounts payable	(563,829)	303,417	(1,615,233)	(1,875,645)
Accrued expenses	(32,870)	6,273	-	(26,597)
Grant advances from the Republic of Palau	(42,734)	-	-	(42,734)
Customer deposits	(61,715)	38,525	-	(23,190)
Net cash used in operating activities	<u>\$ (1,466,171)</u>	<u>\$ (1,179,864)</u>	<u>\$ -</u>	<u>\$ (2,646,035)</u>

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, 2019

	Electric Power Operations	Water and Wastewater Operations
Operating revenues:		
Commercial	\$ 8,489,530	\$ 2,134,852
Residential	6,451,271	2,149,098
Government	1,387,548	134,387
Republic of Palau and component units	5,699,023	396,749
Other	934,046	347,945
	\$ 22,961,418	\$ 5,163,031
Operating expenses:		
Personnel costs:		
Salaries and wages	\$ 2,911,383	\$ 2,263,159
Employee benefits	442,086	340,803
Other employee benefits	75,811	41,757
Pension expense adjustment - GASB 68	840,288	586,389
Total personnel costs	4,269,568	3,232,108
Generation - fuel	14,624,335	-
Depreciation	3,079,849	2,305,382
Repairs and maintenance	2,344,734	615,396
Utilities	74,986	2,158,721
Small tools and equipment	83,111	54,832
Professional services	174,745	102,514
Gas and oil	144,097	82,389
Insurance	114,856	38,181
Supplies	83,304	60,239
Communication	60,385	32,450
Rent	55,022	28,837
Water treatment chemicals	-	363,868
Others	320,490	161,750
	\$ 25,429,482	\$ 9,236,667

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