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

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(AS RESTATED)

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Public Utilities Corporation:

Report on Financial Statements

We have audited the accompanying financial statements of the Palau Public Utilities Corporation (PPUC), a component unit of the Republic of Palau, which comprise the statements of net position as of September 30, 2015 and 2014, 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, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, in 2015, PPUC adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. As a result of adopting these standards, PPUC has elected to restate its 2014 financial statements to reflect the adoption of these standards. 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 3 through 18 as well as the Schedule of Proportional Share of the Net Pension Liability on page 42 and the Schedule of Pension Contributions on page 43 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 and Combining Statement of Revenues, Expenses and Changes in Net Position on pages 44 and 45 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PPUC's internal control over financial reporting and compliance.

Deloitte & Touche LLP

June 30, 2016

The Management's Discussion and Analysis (MD&A) presents the Palau Public Utilities Corporation's (PPUC or the Corporation) financial performance during the fiscal year ended September 30, 2015. The analysis will provide the users with the information they need to assist them in assessing whether PPUC's financial position has improved or deteriorated as result of the current fiscal year's operation. This analysis is to be read in conjunction with the audited financial statements as of and for the year ended September 30, 2015, which follow this section.

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

COMPANY OVERVIEW

The Public Utilities Corporation (PUC) was created on July 6, 1994. PUC was mandated by law to plan, develop and execute an electrification plan for the entire Republic of Palau. The RPPL No. 9-4 approved on June 6, 2013 merged PUC with the one year old Palau Water & Sewer Corporation (PWSC) to create one comprehensive utility corporation designated as Palau Public Utilities Corporation. Although the two companies were merged, cross- subsidization is prohibited. Electrical Power Operation (EPO) and Water & Wastewater Operation (WWO) are considered as different business segments.

PPUC is a wholly owned public corporation, with more than 260 employees and assets of approximately $72 million, responsible for managing, operating and providing electric, water, and sewer service throughout the Republic, and to do so in accordance with the acceptable business practices, treating all users and customers equally. A master plan for PUC developed in 2009 combined with former PWSC five-year corporate plan is used as a guidance while a five-year robust strategic forward-looking operational and financial plan to guide the Corporation in electric, water and sewer operation is being considered for adoption by the Board of Directors.

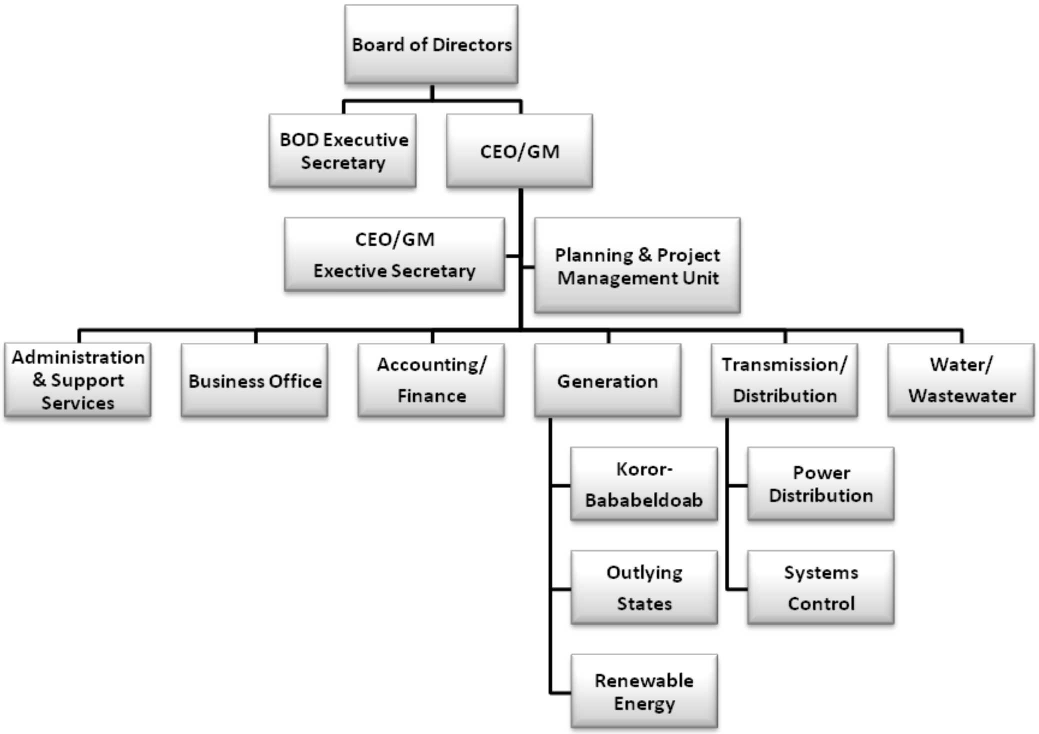
PPUC provides electric power, water and wastewater services to over 6,000 customers annually. This service along with capital replacements is paid by rates and the National Government subsidies. Expanding electric, water, wastewater systems in response to growth in the community is paid by the rates, loans, grants, and subsidy from the National Government.

Insert chart

No. of Customers

	Electric Power		Water/Wastewater	
COMM	702	11%	423	10%
GOV'T	149	2%	130	4%
ROP	296	5%	115	3%
RES	3182	49%	3,421	83%
Suprima	2113	33%	-	
Total	6442		4,089	

Organizational Structure



On September 3, 2014, the Board of Directors announced the appointment of Sam "Yoyo" Masang as Chair replacing Fritz Koshiba and Kaleb Udui, Jr. as Vice Chair replacing Nicholas "Nyk" Kloulubak.

Electric Power Operation (EPO):

The power operations are generally managed well at a broad level and over the years the Division has achieved its mandate to provide power services through-out the Republic and is continuing to seek ways to provide the services to the three southern-most islands of Hatohobei, Sonsorol and Pulo Anna. Electrification for these islands is delayed due to distance and isolation. The management considered and implemented different tactical measures to improve current and future operations performance. These measures offered potential to minimize loss and achieve full cost recovery and a series of initiatives to increase revenues and to reduce operating costs were implemented.

The addition of new generators in the new Aimeliik Power Plant has improved capacity. EPO continues to operate five (5) power systems throughout Palau. The two largest systems are located in Koror and Babeldaob feeding the KB grid that services roughly 95% of Palau's population. The remaining three smaller power systems are located in Peleliu, Angaur and Kayangel servicing less than five hundred people combined.

The PPUC established Renewable Energy Division (RED) is mandated to research, explore, and develop renewable energy sector to promote the National Energy Policy. Although there are various solar energy systems in the Republic, RED has assumed full management and maintenance of the solar systems installed at the Palau International Airport and the Capitol building at Ngerulmud. Further, the division provides technical assistance and maintenance of the solar systems managed by the National Government as need arises.

The PPUC's partnership with Palau Energy Office in pursuing opportunities for expansion of the Renewable Energy (RE) platforms has achieved a good percentage of the goal to achieve 20% of the RE by year 2020. Through this partnership, an agreement for funding and development of solar system between UAE MASDAR and the Republic was signed in January 2015 and a contract for the design, engineering, procurement, construction, expansion, installation, testing, commissioning and start-up of the plant and solar equipment for a maximum 100 of 170kw solar system in Peliliu was effectuated.

The negotiation of a power purchase agreement with an independent power producer of a proposed 5MW solar plant is on-going and when it materializes, it is expected to achieve roughly 13% of PPUC's RE goal.

PPUC succeeded in its negotiation to transfer the ownership of the streetlight maintenance to the various state governments. A memorandum of understanding between PPUC and the States was signed, thus, cost of the maintenance and kWh consumption of the streetlights is paid for by the States.

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. In addition to upgrades and expansion efforts, management is cognizant of the high cost of maintenance which financially impacts its customers, thus, continues to undertake proactive efforts to control and minimize costs. Significant investments in asset replacement including the level of technical and non-technical losses were addressed. The following facility rehabilitation and infrastructure upgrade projects were implemented last year and completed during the fiscal year, except for the SCADA upgrade/expansion and APP tank farm:

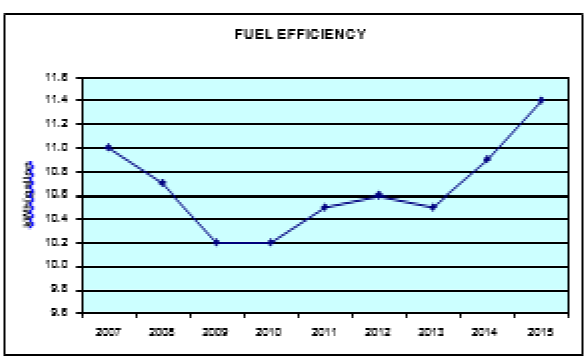
Rehabilitation and upgrade projects	Amount	
SCADA Feasibility Study and upgrade/expansion	$	303,922.96
Supply of 4 Units of Line Distance Relay	$	46,427.00
Supply of Airai Substation Breaker	$	29,952.00
Supply of Pole Hardware & Wooden Power Pole	$	24,420.80
Supply of Pole Mounted Transformers	$	86,661.30
Supply of Wires	$	49,700.00
APP: Construction of Storage Room	$	71,900.00
APP: Construction of Concrete Oil & Water Separator	$	86,478.00
MPP: Professional Electrical Engineer Services	$	33,500.00
PDD: Thermographic Camera	$	38,800.00
APS: Roof Replacement	$	37,950.00
APP: Tank Farm Repair: Tank No. 4, 7 & 9 Project	$	818,087.00
PGD: Forklift	$	30,750.00
Total	$	1,658,549.06

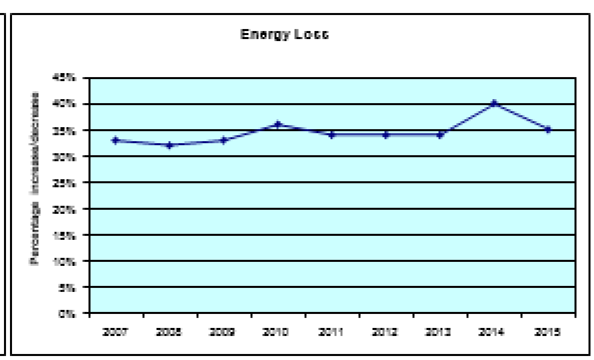
The following table shows the electrical operation performance against benchmarks for the past five fiscal years ending September 30, 2011 through September 30, 2015.

	TARGETS	FY2015	2014	2013	2012	2011
ENERGY LOSS						
KB	20%	19%	15%	17%	16%	20%
PELELIU	30%	44%	41%	41%	41%	37%
ANGAUR	35%	40%	40%	41%	42%	41%
KAYANGEL	35%	35%	64%	39%	37%	39%
Overall Energy	*30%*	*35%*	*40%*	*34%*	*34%*	*34%*
Loss Increase(Decrease)		14%	17%	1%	-	-4%
FUEL EFFICIENCY	kwh/fuel gal					
MALAKAL	15	14.6	14.3	14.5	14.7	14.4
AIMELIIK	13	15.0	15.0	12.5	12.7	12.6
PELELIU	9	9.7	8.7	8.7	8.1	8.2
ANGAUR	9	10.0	9.3	9.0	10.0	9.5
KAYANGEL	9	7.6	7.4	7.6	7.4	7.8
Overall Fuel Efficiency	11	11.4	10.9	10.5	10.6	10.5
Increase(Decrease)		4%	4%	-1%	1%	3%

KWH GENERATED	83,110,260	79,254,846	78,786,032	76,813,526	83,316,032
KWH BILLED	66,923,617	66,776,130	65,093,378	63,817,612	66,510,456
KWH LOSSES	16,186,643	12,478,716	13,692,654	12,995,914	16,805,576
Sale Growth (Regression)	3%	3%	2%	-4%	-1%
KWH Loss Savings (Increase) %	-4%	2%	0%	3%	1%

- Energy loss this fiscal year improved. The energy loss should be maintained below the 30% target, although the energy loss is higher than the target loss percentage, the overall energy loss dropped by 14%.
- Fuel efficiency has improved over the years for the first time in the past years, it is higher than the targeted benchmark.





Water and Wastewater Operations:

Historically the water and wastewater utility was operated by the Bureau of Public Works as a Government Department and PPUC, through the Merger Act, has undertaken management of a water and sewer systems and infrastructure dating back to 1987. Substantial efforts had preceded the merger that secured long-term soft-loans through the Asian Development Bank (ADB) to finance some improvements to the water system, Water Sector Improvement Project (WSIP loan of $16m) and capacity-expansion for the sewer systems of the two densely populated cities of Koror and Airai (roughly $28M).WWO's current financial position is weak and tariff review and implementation is required to support the prime objective of WWO as mandated by law. This is to ensure full cost recovery is achieved and that financial resources are conserved and built up for future maintenance and replacement of systems including investments in capital assets.

The first proposed water and wastewater tariff increase was approved for implementation on April 1, 2015, however, actual realization of revenues derived from this initiative commenced in June 2015. The following table shows the 108% impact of the tariff increase for the four month period.

	Avg/month **FY2014**	**FY2015** 8 months	**FY2015** 4 months
GALLONS Billed	Oct-Sept	Oct-May	Jun-Sept
COMM	25,853,454	24,270,796	22,895,805
GOV'T	1,227,768	2,870,036	1,892,510
ROP	1,416,577	2,111,226	3,019,248
RES	31,810,280	36,052,455	35,204,015
Total	**60,308,079**	**65,304,514**	**63,011,577**
Revenue (Billed)			
COMM	$ 54,522	$ 85,303	$ 178,535
GOV'T	$ 39,604	$ 7,952	$ 11,834
ROP	$ 6,942	$ 8,339	$ 22,558
RES	$ 63,450	$ 66,660	$ 137,178
Total	**$ 164,516**	**$ 168,255**	**$ 350,106**
Revenue Percentage Increase			*108%*

1st Tariff increase on April 1, 2015; impact begins June1

The following table shows the proposed water and wastewater rates per one thousand gallon expected to be implemented by October 1 of each fiscal year.

Water Rates Tiers/per 1Kgal	Current 2014	FY15	FY16	FY17	FY18
Water-Res (0—5K)	$1.17	$1.47	$1.53	$1.59	$1.65
Water—All Others	$1.91	$4.51	$5.41	$6.49	$6.75
% Increase — Res (0-5k)		26%	4%	4%	4%
% Increase — All Others		136%	20%	20%	4%

Sewer rates Tiers/per 1Kgal	Current 2014	FY15	FY16	FY17	FY18
Sewer-Res (0—5K)	$0.30	$0.36	$0.38	$0.39	$0.41
Sewer—All Others	$2.21	$4.13	$4.95	$5.94	$6.18
% Increase — Res (0-5k)		21%	4%	4%	4%
% Increase —All Others		87%	20%	20%	4%

The annual revenue from the increased rates as shown on the above schedule is expected to reach the level of revenue needed to sustain the operations by year 2018. This is a an optimistic approach and is applicable to Koror-Airai customers and a community service obligation of the national government to maintain the services in the outlying states is expected.

Palau's phased sanitation master plan provides a foundation for the Koror-Airai Sanitation Project (KASP). The objective of the project is to address adverse effects of insufficient or lack of sewer capacity in Koror and Airai, causing environmental and health issues with serious impacts on the economy. The Project Implementation Assistance Consultant (PIAC) was hired to assist the Project Management Unit (PMU) in the overall implementation of the project, including the day-to-day project activities, compliance with the provisions of the loan and project agreements and government policies and guidelines, project administration, preparation of loan withdrawal applications, and maintenance of records.

The project design report for both Koror and Airai sewage systems were completed including completion of the wastewater flow and quality, geotechnical surveys, topographic survey, sewage system hydraulic model and the first draft of the international competitive bid for the Malakal sewage networks. The loan proceeds withdrawal during the fiscal year including advance payment and for the remuneration of the PIAC are shown below:

Loan withdrawal NO.	Remuneration Months	Amount
WA001	October 1, 2014	$ 400,000
WA002	March 1, 2015	139,962
WA003	June 1, 2015	234,147
WA004	September 1, 2015	332,791
Total		$ 1,106,899

It is important to note that the annual water and wastewater tariff increase implementation is necessary for the purpose of achieving full cost recovery and to ensure WWO is financially capable to fund KASP loan repayments.

FINANCIAL HIGHLIGHTS

The following table shows the combining statement of net position and the statement of revenues, expenses and changes in the net position for the three fiscal years ended September 30, 2013 through September 30, 2015.

In $000's	Combining EPO & WWO Sept. 30 2015	As Restated Sept. 30 2014	Sept. 30 2013*	Inc (Dec) 2015	Inc (Dec) 2014
Statements of Net Position					
Current assets	$ 20,162	$ 21,315	$ 6,153	$ (1,153)	$ 15,162
Other assets	263	207	301	56	(94)
Net utility plant	50,214	52,168	41,149	(1,954)	11,019
Total assets	70,639	73,690	47,603	(3,051)	12,998
Deferred outflows from pension	1,645	955	-	690	955
	$ 72,285	$ 74,645	$ 47,603	$ (2,360)	$ 27,042
Current liabilities	$ 6,987	$ 8,919	$ 7,479	$ (1,932)	$ 1,440
Other liabilities	7,421	6,993	7,541	(548)	(538)
Net pension liability	13,136	12,921	-	215	12,921
Total liabilities	27,544	28,833	15,020	(2,265)	13,823
Deferred inflows from pension	2,017	1,203		814	1,203
Investment in capital assets	44,626	47,227	35,879	(2,601)	11,348
Unrestricted	(1,902)	(2,618)	(3,296)	716	678
Total net position	$ 42,724	$ 44,609	$ 32,583	$ (1,885)	$ 12,026

* Not restated for the effects of GASB68

The new financial reporting requirement for pensions (GASB 68) influenced the changes of the total net assets in both fiscal years 2014 and 2015. The unrestricted amount in the equity section is now negative due to the requirement to record the pension liability in both years.

In $000's	Sept. 30 2015	As Restated Sept. 30 2014	Sept. 30 2013*	Inc (Dec) 2015	Inc (Dec) 2014
Revenues, Expenses and Changes in Net Position					
Operating revenues:					
Electric	$ 18,925	$ 24,925	$ 25,597	$ (6,000)	$ (672)
Water and Wastewater	3,021	2,202	374	819	1,828
Others	928	672	643	256	29
Recovery (Provision for BD)	(155)	(313)	(60)	158	148
Nonoperating Revenue/Exp	3,333	1,988	1,546	1,345	442
Total revenue	26,052	29,474	28,100	(3,421)	1,775

* Not restated for the effects of GASB68

In $000's	Sept. 30 2015	As Restated Sept. 30 2014	Sept. 30 2013*	Inc (Dec) 2015	Inc (Dec) 2014
Operating expenses:					
Generation fuel	14,555	18,732	18,828	(4,177)	(96)
Generation other costs	3,778	3,424	2,949	354	475
Depreciation	4,385	3,953	2,245	432	1,708
Admin	1,492	1,642	1,159	(150)	483
D&T	920	787	714	133	73
Engineering	488	542	315	(54)	227
Renewable energy	92	85	106	7	(21)
Water and wastewater	2,351	2,471	1,113	(120)	1,358
Total operating expenses	28,061	31,636	27,429	(3,575)	4,207
Capital contributions	124	14,188	3,433	(14,312)	10,755
Special Item: NV of assets transferred	-	-	13,619	-	(13,619)
Change in net position	(1,885)	12,026	17,723	(13,911)	(5,697)
Beginning NP	44,609	32,583	27,949	12,026	4,634
Restatement of beginning NP	-	-	(13,089)	-	13,089
Ending NP	$ 42,724	$ 44,609	$ 32,583	$ (1,885)	$ 12,026

* Not restated for the effects of GASB68

The overall decrease in revenue and operating cost is a direct result of the reduction of fuel price that has effect on the fuel cost to the fuel supplier and the fuel rate paid by the customers.

Electrical Power Operation

The following table shows the revenues, expenses and changes of net position of the electrical operation for the past three fiscal years ending September 30, 2013 through September 30, 2015:

In $000's	Sept. 30 2015	As Restated Sept. 30 2014	Sept. 30 2013*	Inc (Dec) 2015	Inc (Dec) 2014
Statement of Net Position:					
Current assets	$ 19,038	$ 20,417	$ 16,987	$ (1,379)	$ 3,430
Other assets	263	203	301	60	(98)
Net utility plant	36,825	39,858	28,888	(3,033)	10,970
Total assets	56,126	60,478	46,176	$ (4,352)	14,302
Deferred outflows of pension	591	105	108	486	(3)
	$ 56,717	$ 60,583	$ 46,284	$ (3,866)	$ 14,299
Current liabilities	$ 5,728	$ 7,975	$ 7,257	$ (2,246)	$ 718
Other liabilities	6,434	6,993	7,541	(559)	(548)
Net pension liability	7,712	7,190	7,981	522	(791)
Total liabilities	19,874	22,158	22,779	(2,284)	(621)
Deferred inflows of pension	877	739	-	138	739
	$ 20,751	$ 22,897	$ 22,779	$ (2,146)	$ 118
Investment in capital assets	$ 32,224	$ 34,916	$ 23,617	$ (2,692)	$ 11,299
Unrestricted	3,742	2,770	(112)	972	2,882
Total net position	$ 35,966	$ 37,686	$ 23,005	$ (1,720)	$ 14,181

* Not restated for the effects of GASB68

In $000's	Sept. 30 2015	As Restated Sept. 30 2014	Sept. 30 2013*	Inc (Dec) 2015	Inc (Dec) 2014
Revenues, Expenses and Changes in Net Position					
Operating revenues:					
Electric	$ 21,057	$ 27,308	$ 26,360	$ (6,251)	$ 948
Others	772	634	643	138	(9)
Recovery (Provision for BD)	-	(292)	(60)	292	(232)
Nonoperating Revenue/Exp	(163)	152	(1,127)	(315)	1,279
Total revenue	21,666	27,802	25,816	(6,136)	1,986
Operating Expenses:					
Generation fuel	14,555	18,732	18,828	(4,177)	(96)
Generation other costs	3,830	3,454	2,950	76	504
Depreciation	2,615	2,187	1,803	428	384
Admin	856	920	1,095	(64)	(175)
D&T	935	813	723	122	90
Engineering	496	554	315	(58)	239
Renewable energy	98	92	106	6	(14)
Total operating expenses	23,385	26,752	25,820	(3,367)	932
Capital contributions	-	13,131	3,433	(13,131)	9,698
Change in net position	(1,720)	14,181	3,429	(15,901)	10,752
Beginning NP	37,686	23,505	27,949	14,181	(4,444)
Restatement of beginning NP	-	-	(7,873)	-	-
Ending NP	$ 35,966	$ 37,686	$ 23,505	$ (1,720)	$ 14,181

* Not restated for the effects of GASB68

The electrical operation's total net assets increased by over $14 million in the fiscal year 2014 as a result of the decision to increase fuel stock and the capitalization of the completed new power plant at Aimeliik Power Plant (APP). A decrease of $9.5 million is reflected in the fiscal year 2015. Among various factors that may have contributed to this reduction are a decrease of fuel cost and rates, asset disposals, adjustment made to transfer-out the cost of parts and tools included in electric plants, reduction of receivables, investment closure and loan to water and wastewater operation. Major components of this reduction are a result of recording the PPUC's proportionate share of the net pension liability.

Water and Wastewater Operation

The following table shows the revenues, expenses and changes of net asset of the water and wastewater operation for the past three fiscal years ending September 30, 2013, through September 30, 2015.

In $000's	Sept. 30 2015	As Restated Sept. 30 2014	Sept. 30 2013*	Inc (Dec) 2015	Inc (Dec) 2014
Statements of Net Position					
Current assets	$ 4,188	$ 2,019	$ 3,034	$ 2,169	$ 3,034
Other assets	-	4	-	(4)	4
Net utility plant	13,389	12,310	12,261	1,079	49
Total assets	17,577	14,333	15,295	3,244	3,087
Deferred outflows of pension	1,055	850	65	205	785
	$ 18,632	$ 15,183	$ 15,300	$ 3,449	$ (177)

* Not restated for the effects of GASB68

In $000's	Sept. 30 2015	As Restated Sept. 30 2014	Sept. 30 2013*	Inc (Dec) 2015	Inc (Dec) 2014
Current liabilities	$ 4,323	$ 2,065	$ 1,002	$ 2,258	$ 1,063
Other liabilities	987	-	-	987	-
Net pension liability	5,424	5,731	5,280	(307)	451
Total liabilities	10,734	7,796	6,282	2,938	1,514
Deferred inflows of pension	1,140	464	-	676	464
	$ 11,874	$ 8,260	$ 6,282	$ 3,614	$ 1,978
Net position:					
Investment in capital assets	$ 12,402	$ 12,310	$ 12,261	$ 92	$ 49
Unrestricted	(5,644)	(5,387)	(3,183)	(257)	(2,204)
Total net position	$ 6,758	$ 6,923	$ 9,078	$ (165)	$ (2,155)

* Not restated for the effects of GASB68

In $000's	Sept. 30 2015	As Restated Sept. 30 2014	Sept. 30 2013*	Inc (Dec) 2015	Inc (Dec) 2014
Revenues, Expenses, and Changes in Net Position:					
Operating Revenues:					
Water and wastewater	$ 3,073	$ 2,239	$ 384	$ 834	$ 1,855
Others	156	38	-	118	38
Recovery (Provision for BD)	(155)	(21)	-	(134)	(21)
Nonoperating revenue/exp	3,496	1,837	2,673	1,659	(1,220)
Total revenue	6,570	4,093	3,057	2,477	652
Operating expenses:					
Water and wastewater	4,412	4,767	1,876	(355)	2,891
Depreciation	1,769	1,766	442	3	1,324
Admin	677	772	65	(95)	707
Total operating expenses	6,858	7,305	2,383	(447)	4,922
Capital contributions	123	1,057	-	(934)	1,057
Special Item: NV of assets transferred	-	-	13,619	-	(13,619)
Change in Net position	(165)	(2,155)	14,293	1,990	(16,448)
Beginning NP	6,923	9,078	-	(2,155)	9,078
Restatement of beginning NP	-	-	(5,215)	-	(5,215)
Ending NP	$ 6,758	$ 6,923	$ 9,078	$ (165)	$ (7,370)

* Not restated for the effects of GASB68

- Total assets including deferred outflow of resources from pension for the year increased by over $4 million.
- Liabilities for the year increased by over $8 million. This increase consist of the amount of loan proceeds withdrawal for KASP and unpaid electricity bills due to EPO.
- WWO revenues for the year increased by over $800 thousand, an impact of the tariff increase. Subsidy from the government also increased by $1.6 million.
- Net position decreased by over $5 million.
- Overall, WWO financial picture improved compared to previous fiscal years.

CAPITAL ASSETS and LONG-TERM DEBT

Capital Assets

The following table summarizes PPUC's capital assets by category and accumulated depreciation, and the changes therein for the years ended September 30, 2015, 2014, and 2013, respectively.

In $000's	Sept. 30 2015	Sept. 30 2014	Sept. 30 2013	Inc (Dec) 2015	Inc (Dec) 2014
Electrical Plants:					
Electric Plants, Koror/Aimeliik	$ 40,027	$ 41,123	$ 28,680	$ (1,096)	$ 12,443
Electric Plants, Outlying States	2,625	2,626	2,605	(1)	21
Total Electric Plants	42,652	43,749	31,285	(1,097)	12,464
Accumulated Depreciation	(15,863)	(15,127)	(13,784)	(736)	(1,343)
Net Electric Plant	26,789	28,622	17,501	(1,833)	11,121
Transmission & Distribution System:					
T&D System, Koror/Aimeliik	17,552	17,512	17,424	40	88
T&D System, Outlying States	2,199	2,090	2,090	109	-
Total T&D System	19,751	19,602	19,514	149	88
Accumulated Depreciation	(11,063)	(10,465)	(9,887)	(598)	(578)
Net T&D System	8,688	9,137	9,627	(449)	(490)
Water & Sewer Systems:					
Water Infrastructure	21,761	21,461	21,397	300	64
Sewer Infrastructure	20,129	20,129	19,407	-	722
Total Water & Sewer Systems	41,890	41,590	40,804	300	786
Accumulated Depreciation	(31,988)	(30,341)	(28,640)	(1,647)	(1,701)
Net Water & Sewer Systems	9,902	11,249	12,164	(1,347)	(915)
Water & Sewer Transmission & Distribution System:					
WWO T&D System, Koror/Babeldaob	318	318	-	-	318
Total WWO T&D System	318	318	-	-	318
Accumulated Depreciation	(32)	-	-	(32)	-
Net WWO T&D System	286	318	-	(32)	318
Administrative Equipment:					
Buildings	1,816	1,749	1,576	67	173
Heavy Equipment & Vehicles	1,760	2,597	1,634	(837)	963
Tools & Maint Equipment	615	1,001	936	(386)	65
Computers and office equipment	743	870	755	(127)	115
Total admin equipment	4,934	6,217	4,901	(1,283)	1,316
Accumulated depreciation	(3,375)	(3,375)	(3,044)	-	(331)
Net admin equipment	1,559	2,842	1,857	(1,283)	985
Total Capital Projects in Progress	2,990	-	-	2,990	-
TOTAL	$ 50,214	$ 52,168	$ 41,149	$ (1,954)	$ 11,019

The value of the capital assets decreased by over $5.2 million and some of the reasons are noted below:

- Disposal of obsolete and damaged assets
- Increase in accumulated depreciation expense as a result of the new power plant capitalization in the fiscal year 2014

See note 7 for additional information on PPUC's capital activities.

Long-Term Debt

At September 30, 2015, PPUC's loan portfolio comprised the following:

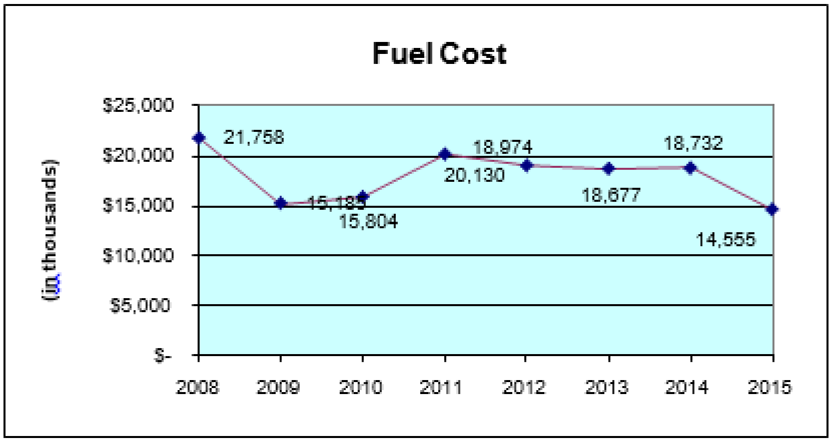
	Original	Sept 30, 2015
International Loan	$ 7,000,000	$ 4,600,000
Local Loan	$ 3,000,000	$ 2,393,046
ADB Loan	$ 28,667,179	$ 986,898
TOTAL	$ 38,667,179	$ 7,979,944

The international and local loans were acquired to purchase additional generation capacity and to finance major repairs and generation auxiliary equipment. The long- term soft loan secured by ROP from Asian Development Bank was subsequently loaned to PPUC as per the subsidiary loan agreements dated March 28, 2014. Proceeds will be used to upgrade the Koror sewerage system and construct wastewater treatment plant and sewerage network in Airai. The ADB loan amount as of September 30, 2015 reflects the total amount of the loan proceeds withdrawn and is recognized as long-term debt in the financial statements. See note 8 for additional information on PPUC's financing activities.

ECONOMIC FACTORS and OUTLOOK

Fuel Market

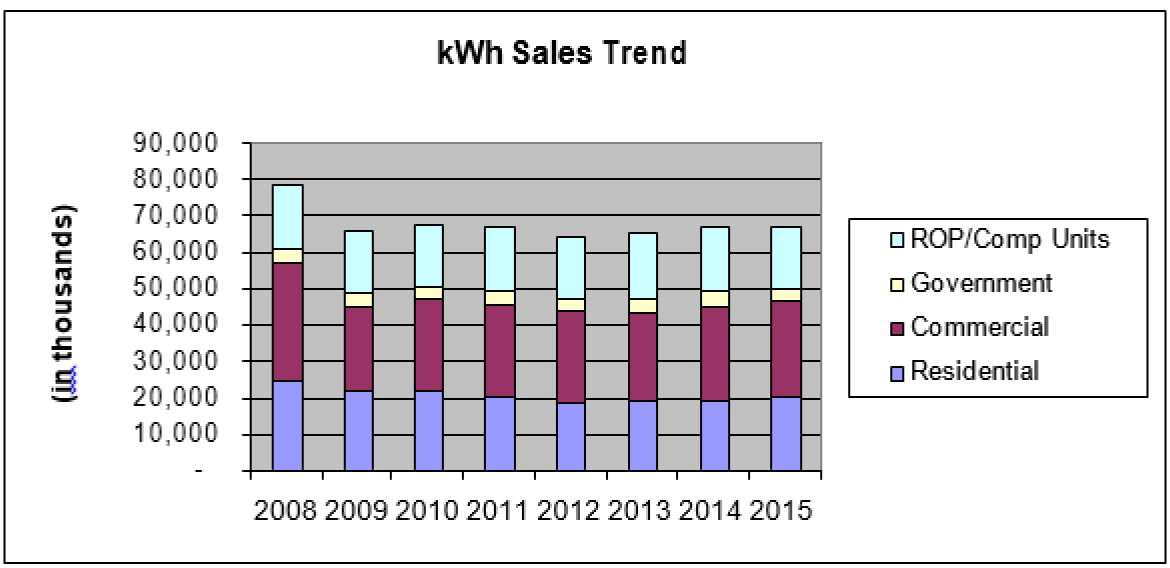
The projections in the energy outlook normally focus on various factors expected to change the energy market trends and is out of the control by PPUC. The rising cost for electric power generation, transmission, and distribution, coupled with relatively slow growth of electricity demand may ultimately increase the retail price of power. However, PPUC will continue to rely on the average price of the barrel of crude oil to determine the inflation rate used for calculation of the "automatic fuel price adjustment clause" (AFPAC) on a quarterly basis.



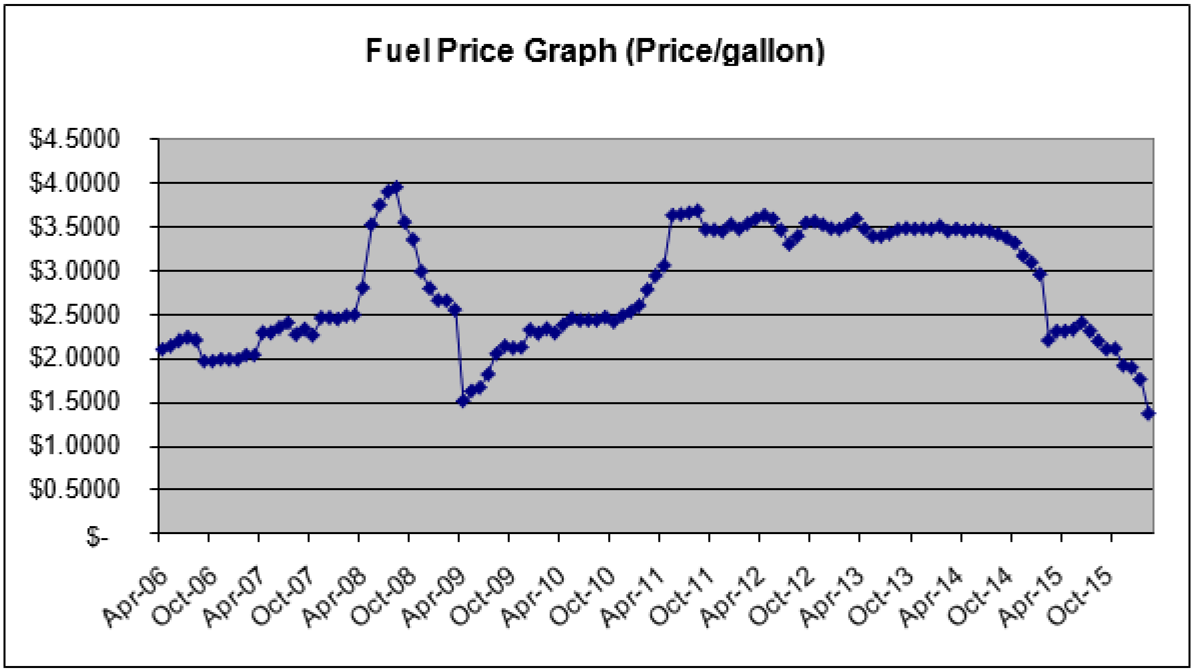
PPUC's dependence on fossil fuel is likely to continue for several years due to its size and geographic location.

There was a decline in fuel cost when compared to the past three years (see chart below). It is projected that fuel cost will ultimately begin to increase towards the end of the year. This highlights the volatility of the market based on the trends of fuel cost from 2008 to 2015 and exposes PPUC's vulnerability and risks.

Fuel impact is evident in our sales performance. The steep price spike in the fuel market in 2008 provoked unforeseen energy conservation efforts carried through 2011. Steady sales through 2011 was disrupted by a 4% drop in consumption, apparently a reaction to resurgence of price escalation in 2011 and impelled further conservation measures. As the fuel cost began to decrease in 2013 through 2015, sales performance started to improve. The chart below illustrates this impact on sales performance.



Various factors drive gas and oil prices. These factors are unpredictable and erratic as seen in the graph below.

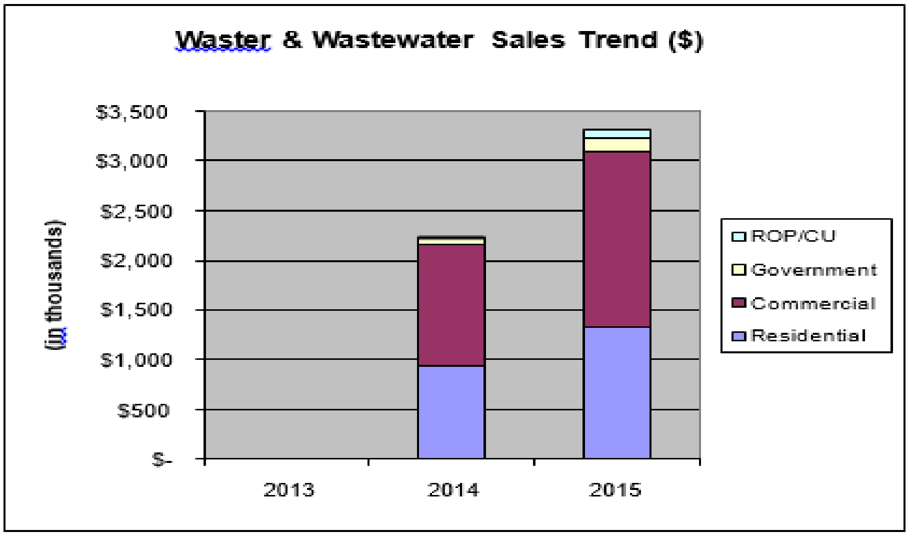


Unpredictability and volatility of the fuel market gives impetus to the drive for stable and controlled electric cost. Combined with global temperament towards environmental issues, these are making renewable energy a relevant, if not preferred and significant energy source in the future. PPUC is continuing its efforts, aided by development partners, to diversify its energy sources and reduce dependence on fossil fuel.

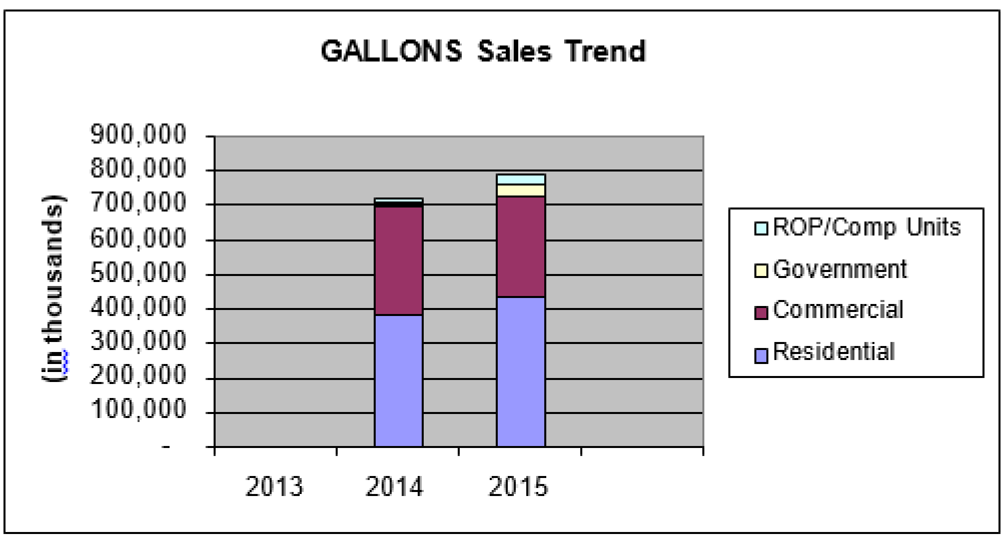
Another dynamic on the energy scene in Palau is PPUC customers making entry into RE platforms in an effort to protect themselves from risks in the fossil market. To date, total photovoltaic systems installed at various establishments add up to approximately 1% of PPUC's total generation capacity at KWp. Furthermore, various hotels have made significant investment in solar water heaters, reducing power consumption. This scenario reveals the energy market in Palau is becoming increasingly competitive.

A one year old corporation, WWO, merged with EPO and faced with common challenges of rising material costs, aging infrastructure, regulatory challenges, ensuring adequate long-term water supply, health and environmental issues, rate structure under stress from subsidy reduction and cultural resistance to change, workforce complexities, and other barriers are just some of the attributes that the Board and Management have in mind while developing strategic directions.

The tariff increase for the water and wastewater is an indicative of the dramatic increase in sales comparing with the sales in 2014. The graph below shows this trend.



A significant operating cost of Water & Wastewater Operations is electricity for water and sewer pumps. This makes up roughly 34% of operating expenses. This cost is dependent on factors discussed in the EPO presentations.



FUTURE OUTLOOK

Palau is naturally blessed with rich water resources with outstanding natural and cultural resources and has benefited from the strong growth in the tourism sector. Despite this positive outlook, Palau remains vulnerable to other economic disturbances, the impacts of climate change, most especially weather related risks. PPUC's task is to harness, store and safeguard such resources to meet Palau's growing utility needs. Upgrade of systems and storage capacity, and efficient distribution together with effective monitoring and safeguarding mechanisms are challenges that management is actively pursuing with the support of Palau's leadership and donor partners.

PPUC-EPO will continue to exert efforts towards the NEP targets of 30/20/20 (30% reduction of overall energy consumption and 20% renewable energy platforms by the year 2020). Renewable energy continues to attract development partners sympathetic to global warming issues. PPUC's efforts should focus on energy diversification and generation upgrades to assure energy supply stability and to benefit from cutting-edge technological advances.

Palau's economic outlook appears fair. Our tourism market appears to be stable based on visitor arrival statistics provided by the Palau Visitors Authority. Management is optimistic of a potentially robust economy and a commercially viable environment for the future.

PPUC-WWO continues its effort to provide access for all, to safe water supply and sanitation systems. This strengthened effort is mandated by the leadership to meet service demands from the rapidly growing number of visitors each year.

ROP is re-negotiating new terms for a new Compact of Free Association (COFA) with the United States of America. Renewed COFA terms will assure the national government, and the local economy, of steady capital inflow to sustain current and spur new economic initiatives. This is a positive indicator as the national government is the single largest employer on island as well as a major player in Palau's economy.

CONTACTING PPUC'S FINANCIAL MANAGEMENT

This financial report is designed to provide PPUC's rate payers and creditors with a general overview of PPUC's finances and to demonstrate PPUC's accountability for the money it receives. Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in PPUC's report on the audit of financial statements which is dated June 25, 2015.

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

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

Statements of Net Position
September 30, 2015 and 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2015	2014 As Restated (Note 2)
Utility plant:		
Depreciable utility plant	$ 47,224,386	$ 51,590,347
Non-depreciable utility plant	2,989,592	577,349
Net utility plant	50,213,978	52,167,696
Current assets:		
Cash and cash equivalents	8,419,916	8,439,100
Receivables:		
Trade	3,517,460	3,376,320
Affiliate	366,785	1,058,987
Contracts	132,949	121,411
Other	418,840	102,336
	4,436,034	4,659,054
Less allowance for doubtful accounts	(790,619)	(647,000)
Net receivables	3,645,415	4,012,054
Prepaid expenses	235,128	246,235
Inventory, net	7,861,475	8,500,075
Due from grantor agencies	-	118,000
Total current assets	20,161,934	21,315,464
Other non-current assets:		
Contracts receivable, net of current portion	263,442	207,415
Total assets	70,639,354	73,690,575
Deferred outflows of resources from pension	1,645,408	954,376
	$ 72,284,762	$ 74,644,951

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2015	2014 As Restated (Note 2)
Net position:		
Net investment in utility plant	$ 44,626,037	$ 47,226,567
Unrestricted	(1,902,037)	(2,617,680)
Total net position	42,724,000	44,608,887
Commitments and contingencies		
Current liabilities:		
Current portion of long-term debt	559,186	548,183
Accounts payable	4,195,423	6,795,747
Accrued expenses	811,524	841,173
Grant advances from the Republic of Palau	657,263	260,425
Customer deposits	763,429	473,895
Total current liabilities	6,986,825	8,919,423
Long-term debt, net of current portion	7,420,758	6,992,946
Net pension liability	13,135,896	12,920,967
Total liabilities	27,543,479	28,833,336
Deferred inflows of resources from pension	2,017,283	1,202,728
	$ 72,284,762	$ 74,644,951

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, 2015 and 2014

	2015	2014 As Restated (Note 2)
Operating revenues:		
Power	$ 18,924,686	$ 24,924,541
Water	2,183,972	1,566,210
Wastewater	837,609	636,098
Other	927,641	672,332
Total operating revenues	22,873,908	27,799,181
Provision for uncollectible receivables	(155,000)	(312,855)
Net operating revenues	22,718,908	27,486,326
Operating expenses:		
Generation - fuel	14,555,200	18,732,306
Depreciation	4,384,591	3,953,456
Generation - other cost	3,778,333	3,423,524
Administration	1,492,469	1,642,143
Distribution and transmission	919,876	787,352
Engineering services	487,612	541,542
Renewable energy	91,782	85,516
Water operations	1,921,213	1,934,939
Wastewater operations	429,964	536,102
Total operating expenses	28,061,040	31,636,880
Operating loss	(5,342,132)	(4,150,554)
Nonoperating revenues (expenses):		
Operating subsidies from the Republic of Palau	3,419,045	1,800,729
Inventory obsolescence recovery	181,459	-
Grants from the Japan Government	-	266,203
Grants from the United States Government	102,892	45,000
Interest income	4,555	1,416
Loss on disposal of utility plant	(99,308)	-
Interest expense	(412,927)	(383,207)
Other	137,977	258,043
Total nonoperating revenues (expenses), net	3,333,693	1,988,184
Loss before capital contributions	(2,008,439)	(2,162,370)
Capital contributions:		
Donated capital from the Republic of Palau	123,552	1,056,993
Grants from the Japan Government	-	13,131,208
Change in net position	(1,884,887)	12,025,831
Net position at beginning of year	44,608,887	32,583,056
Net position at end of year	$ 42,724,000	$ 44,608,887

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, 2015 and 2014

	2015	2014 As Restated (Note 2)
Cash flows from operating activities:		
Cash received from customers	$ 23,319,052	$ 29,647,818
Cash payments to suppliers for goods and services	(22,443,991)	(22,408,825)
Cash payments to employees for services	(2,723,759)	(3,333,571)
Net cash (used in) provided by operating activities	(1,848,698)	3,905,422
Cash flows from investing activities:		
Interest income	4,555	1,416
Other non-operating income	137,977	61,508
Net cash provided by investing activities	142,532	62,924
Cash flows from non-capital financing activities:		
Appropriations received from the Republic of Palau	3,419,045	1,800,729
Cash received from grantor agencies	617,730	472,809
Net cash provided by non-capital financing activities	4,036,775	2,273,538
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	986,898	-
Principal payment on long-term debt	(548,083)	(537,417)
Interest paid on long-term debt	(381,979)	(384,393)
Acquisition of utility plant	(2,406,629)	(783,713)
Net cash used in capital and related financing activities	(2,349,793)	(1,705,523)
Net change in cash and cash equivalents	(19,184)	4,536,361
Cash and cash equivalents at beginning of year	8,439,100	3,902,739
Cash and cash equivalents at end of year	$ 8,419,916	$ 8,439,100
Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	$ (5,342,132)	$ (4,150,554)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation	4,384,591	3,953,456
Provision for uncollectible receivables	155,000	312,855
Pension expense	123,523	420,580
(Increase) decrease in assets:		
Receivables:		
Trade	(152,521)	(197,056)
Affiliate	692,202	1,991,863
Contracts	(67,565)	63,507
Other	(316,504)	(33,042)
Prepaid expenses	11,107	444,781
Inventory	820,059	9,192
Increase (decrease) in liabilities:		
Accounts payable	(2,600,324)	680,315
Accrued expenses	(60,597)	726,388
Customer deposits	289,534	23,366
Net pension liability	214,929	(340,229)
Net cash (used in) provided by operating activities	$ (1,848,698)	$ 3,905,422

Non-cash transactions:

In 2015, construction in progress includes $123,552 of donated capital from the Republic of Palau.

In 2014, PPUC received $13,131,208 in grants from the Japan Government consisting of various utility plant equipment and related costs of installation.

In 2014, the Republic of Palau transferred sewer assets to PPUC with a total cost of $1,056,993.

See accompanying notes to financial statements.

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Accounting Estimates

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

Cash and Cash Equivalents

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

Receivables

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

(2) Summary of Significant Accounting Policies, Continued

Inventory

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

Utility Plant

Utility plant purchased or constructed is stated at cost. Donated utility plant is recorded at fair market value at the date of donation or at the donating entity's basis in the asset if donated by the ROP or an ROP agency. PPUC capitalizes utility plant with a cost of $500 or more.

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

PPUC capitalizes interest in order to recognize all costs associated with construction based on PPUC's weighted average borrowing rate. No interest was capitalized during the years ended September 30, 2015 and 2014.

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 – include utility plant, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve.

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

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

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

Revenue

Sales of electricity, water and wastewater services are recorded as billed to customers on a monthly cycle billing basis. For electricity billings, PPUC factors a variable fuel surcharge into its monthly billings to recover the costs of fuel. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Unbilled revenues at September 30, 2015 and 2014 were $1,926,752 and $1,922,946, respectively.

(2) Summary of Significant Accounting Policies, Continued

Operating and Nonoperating Revenues and Expenses

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

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

Pensions

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Compensated Absences

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

(2) Summary of Significant Accounting Policies, Continued

Taxes

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

Reclassification

Certain reclassification has been made to the 2014 financial statements to correspond to the 2015 presentation.

New Accounting Standards

During the year ended September 30, 2015, PPUC implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits through plans that are administered through trusts. The implementation of these statements had a material effect on the accompanying financial statements resulting in the restatement of PPUC's fiscal year 2014 financial statements to reflect the reporting of net pension liabilities, deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68.

	As Previously Reported	Adjustment	As Restated
As of October 1, 2013:			
Net position	$ 45,672,024	$ (13,088,968)	$ 32,583,056
For the year ended September 30, 2014:			
Generation – other cost	$ 3,472,728	$ (49,204)	$ 3,423,524
Water operations	$ 1,833,491	$ 101,448	$ 1,934,939
Wastewater operations	$ 507,995	$ 28,107	$ 536,102
Change in net position	$ 12,106,182	$ (80,351)	$ 12,025,831
As of September 30, 2014:			
Deferred outflows from pension	$ -	$ 954,376	$ 954,376
Net pension liability	$ -	$ (12,920,967)	$ (12,920,967)
Deferred inflows from pension	$ -	$ (1,202,728)	$ (1,202,728)
Net position	$ 57,778,206	$ (13,169,319)	$ 44,608,887

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application,* which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(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, 2015 and 2014, cash and cash equivalents were $8,419,916 and $8,439,100, respectively, and the corresponding bank balances were $8,520,455 and $8,066,498, respectively, that are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014, bank balances of $372,676 were held and administered by investment managers subject to Securities Investor Protection Corporation Insurance. As of September 30, 2015 and 2014, 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. Excess grant disbursements over receipts are recognized as due from grantor agencies until funds are received in accordance with grant terms and conditions.

On June 27, 2012, the Japan Government provided a grant for the Enhancing Power Generation Capacity in the Urban Area in the Republic of Palau (the Project) for 1,729,000,000 yen or approximately $21,700,000 at the date of award. The Project involves the rebuilding of the Aimeliik power plant. As part of the grant, PPUC entered into an agreement with a consultant on July 16, 2012 to provide professional services for design, assistance of tendering, and supervision of the Project and with a contractor on November 26, 2012 for the construction of the new Aimeliik power plant. The construction of the new Aimeliik power plant was completed in May 2014.

(4) Grants, Continued

Changes in the due from U.S. Federal and Japan Governments' grants for the years ended September 30, 2015 and 2014 are as follows:

	2015	2014
Balance at beginning of year	$ -	$ 79,471
Additions - program outlays:		
U.S. Federal Government	102,892	45,000
Japan Government	-	13,397,411
	102,892	13,521,882
Deductions:		
Cash receipts from the U.S. Federal Government	(102,892)	(124,471)
Noncapital costs from the Japan Government grants	-	(266,203)
Capitalized cost from the Japan Government grants	-	(13,131,208)
	(102,892)	(13,521,882)
Balance at end of year	$ -	$ -

(5) Receivable from a Local Bank

At September 30, 2015 and 2014, PPUC has uninsured deposits of $2,025,381 with a bank that went into receivership on November 7, 2006. These deposits were fully provided for with an allowance at September 30, 2015 and 2014.

(6) Inventory

Inventory at September 30, 2015 and 2014, consists of the following:

	2015	2014
Generation parts and supplies	$ 6,466,157	$ 5,709,597
Fuel	2,242,448	3,741,505
Lubricants	32,346	30,991
Chemicals	10,683	85,161
Water distribution parts and supplies	30,048	34,487
	8,781,682	9,601,741
Allowance for slow moving and obsolete inventory	(920,207)	(1,101,666)
	$ 7,861,475	$ 8,500,075

The allowance for slow moving and obsolete inventory of $688,541 and $870,000 at September 30, 2015 and 2014, respectively, was provided for generation parts and supplies inventory that are maintained in the Aimeliik power plant that caught fire in November 2011. In November 2015, PPUC sold $548,812 of Aimeliik generation parts and supplies inventory for $274,406 (see note 15).

(7) Utility Plant

Utility plant consists of the following detailed balances at September 30, 2015 and 2014:

	Estimated Useful Lives	Balance at October 1, 2014	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2015
Depreciable utility plant:					
Electric plant	3 - 25 years	$ 43,748,165	$ 198,750	$ (2,350,245)	$ 41,596,670
Water system	20 years	21,830,513	324,904	-	22,155,417
Sewer system	20 years	20,128,977	-	-	20,128,977
General support equipment	2 - 30 years	24,416,914	631,769	(868,407)	24,180,276
Administrative equipment	2 - 10 years	773,699	42,389	(172,965)	643,123
		110,898,268	1,197,812	(3,391,617)	108,704,463
Less accumulated depreciation		(59,307,921)	(4,384,591)	2,212,435	(61,480,077)
		51,590,347	(3,186,779)	(1,179,182)	47,224,386
Non-depreciable utility plant:					
Construction in progress		577,349	2,809,543	(397,300)	2,989,592
		$ 52,167,696	$ (377,236)	$ (1,576,482)	$ 50,213,978

	Estimated Useful Lives	Balance at October 1, 2013	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2014
Depreciable utility plant:					
Electric plant	3 - 25 years	$ 29,118,078	$ 14,630,087	$ -	$ 43,748,165
Water system	20 years	21,397,218	433,295	-	21,830,513
Sewer system	20 years	19,406,631	722,346	-	20,128,977
General support equipment	2 - 30 years	23,755,955	660,959	-	24,416,914
Administrative equipment	2 - 10 years	658,859	114,840	-	773,699
		94,336,741	16,561,527	-	110,898,268
Less accumulated depreciation		(55,354,465)	(3,953,456)	-	(59,307,921)
		38,982,276	12,608,071	-	51,590,347
Non-depreciable utility plant:					
Construction in progress		2,166,962	13,073,938	(14,663,551)	577,349
		$ 41,149,238	$ 25,682,009	$ (14,663,551)	$ 52,167,696

Included in the additions and transfers as of September 30, 2014 are two sewer assets transferred by the ROP-MOF to PPUC with a total cost of $1,056,993. The transfer is presented as donated capital in the accompanying statements of revenues, expenses and changes in net position.

(8) Long-Term Debt

	2015	2014
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.	$ 4,600,000	$ 5,000,000

(8) Long-Term Debt, Continued

	2015	2014
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 starting January 30, 2011.	2,393,046	2,541,129
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 semi-annually beginning April 1, 2018 in installments of $26,208.	986,898	-
Total long-term debt	7,979,944	7,541,129
Less current maturities	(559,186)	(548,183)
	$ 7,420,758	$ 6,992,946

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

Year Ending September 30,	Principal	Interest	Total
2016	$ 559,186	$ 338,269	$ 897,455
2017	572,043	313,077	885,120
2018	598,871	285,526	884,397
2019	626,735	256,726	883,461
2020	641,900	227,382	869,282
2021 - 2025	3,927,436	639,409	4,566,845
2026 - 2030	851,422	31,237	882,659
2031 - 2035	134,712	7,443	142,155
2036 - 2038	67,639	1,065	68,704
	$ 7,979,944	$ 2,100,134	$ 10,080,078

(8) Long-Term Debt, Continued

Movements in long-term liabilities for the years ended September 30, 2015 and 2014, are as follows:

	Balance at October 1, 2014 (As Restated)	Additions	Repayments	Balance at September 30, 2015	Balance Due in One Year
Long-term debt	$ 7,541,129	$ 986,898	$ (548,083)	$ 7,979,944	$ 559,186
Net pension liability	12,920,967	214,929	-	13,135,896	-
	$ 20,462,096	$ 1,201,827	$ (548,083)	$ 21,115,840	$ 559,186

	Balance at October 1, 2013 (As Restated)	Additions	Repayments	Balance at September 30, 2014 (As Restated)	Balance Due in One Year
Long-term debt	$ 8,078,546	$ -	$ (537,417)	$ 7,541,129	$ 548,183
Net pension liability	13,261,196	-	(340,229)	12,920,967	-
	$ 21,339,742	$ -	$ (877,646)	$ 20,462,096	$ 548,183

(9) Retirement Fund

A. General Information About the Pension Plan:

Plan Description:

PPUC contributes to the Republic of Palau Civil Service Pension Trust Fund (the Fund), a defined benefit, single-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 October 1, 2013 (the valuation date):

Inactive members currently receiving benefits	1,356
Inactive members entitled to but not yet receiving benefits	206
Active members	3,107
Total members	4,669

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Summary of the Principal Provisions of the Plan:

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

Eligibility to Participate:

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

Service:

Vesting Service: Includes membership service and prior service credit.

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

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

Pension Benefits:

Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Pension Fund receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board. Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions. Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty year mandatory service provisions. These provisions were restored through RPPL 8-10 in October, 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued:

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

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

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

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

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

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

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued:

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

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

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

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

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

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

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

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit. Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Member Contributions:

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

PPUC contributed $184,349, $183,459 and $122,322 to the Fund during the fiscal years 2015, 2014 and 2013, respectively, which was equal to the required contributions for the respective years then ended.

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.

Actuarial Assumptions:

The total pension liability was determined by an actuarial valuation as of October 1, 2013, and rolled forward using generally accepted actuarial procedures to the measurement date as of September 30, 2014, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method
Investment Income:	7.5% per year
Expenses:	$300,000 each year
Salary Increase:	3.0% per year
Mortality:	RP 2000 Combined Healthy Mortality Table, set forward four years
Disabled Mortality:	PBGC Mortality Table for Disabled Persons receiving Social Security
Retirement Age:	Age 60 and contributed for at least 5 years

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued:

Pre-retirement Beneficiary Benefit Members:	Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses.
Pre-retirement Beneficiary Benefit Former Members:	Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses.
Post Retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death. 80% of active workers are assumed to be married when they retire. Males are assumed to be 3 years older than their spouses.
Disability:	Rates are from the 2007 US Social Security Trustees Report Intermediate Assumptions
Turnover:	5% per year prior to age 40; none after age 40
Refund of Contributions:	80% of those who terminate and are eligible to receive a refund of their employee contributions in lieu of a future benefit elect to receive the refund.
Workers Included In the Valuation:	Workers indicated in the census as Active or Inactive with a vested benefit.

Investment Rate of Return:

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

As of September 30, 2014, the geometric mean rates of return for each major investment class are as follows:

Asset Class	Target Allocation	Expected Rate of Return
Equity	55%	8.8%
Governmental fixed income	35%	5.5%
Corporate fixed income	10%	6.4%
	100%	

(9) Retirement Fund, Continued

A. General Information About the Pension Plan, Continued:

Discount Rate:

The discount rate used to measure the total pension liability was 4.22%. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2022 for 2014. For years after 2021, a discount rate of 4.11% is used. This rate is equal to the last Bond Buyer 20-Bond Go Index rate for September.

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, calculated using the discount rate of 4.22%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (3.22%) or 1.00% higher (5.22%) from the current rate.

	1% Decrease 3.22%	Current Single Discount Rate Assumption 4.22%	1% Increase 5.22%
EPO	$ 8,666,626	$ 7,711,821	$ 6,366,704
WWO	6,095,633	5,424,075	4,477,993
	$ 14,762,259	$ 13,135,896	$ 10,844,697

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

Pension Liability:

As of September 30, 2015 and 2014, PPUC's proportionate share of the ROP net pension liability and PPUC's proportion of the ROP overall liability is as follows:

	Proportionate share of the net pension liability	Proportion of the overall liability
2015:		
EPO	$ 7,711,821	3.78%
WWO	5,424,075	2.66%
	$ 13,135,896	
2014:		
EPO	$ 7,189,624	3.95%
WWO	5,731,343	3.15%
	$ 12,920,967	

(9) Retirement Fund, Continued

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

Pension Expense:

For the years ended September 30, 2015 and 2014, PPUC recognized pension expense as follows:

	2015	2014
EPO	$ 274,068	$ 46,651
WWO	252,175	217,159
	$ 526,243	$ 263,810

Deferred Outflows and Inflows of Resources:

At September 30, 2015 and 2014, PPUC reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2015		2014	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
EPO:				
Changes of assumptions	$ 492,945	$ 444,300	$ -	$ 580,602
Net difference between projected and actual earnings on pension plan investments	-	20,783	-	1,184
Contributions subsequent to the measurement date	98,189	-	104,507	-
Changes in proportion and difference between EPO contributions and proportionate share of contributions	-	412,108	-	157,162
	591,134	877,191	104,507	738,948
WWO:				
Changes of assumptions	346,711	312,490	-	462,836
Net difference between projected and actual earnings on pension plan investments	-	14,617	-	944
Contributions subsequent to the measurement date	86,160	-	73,503	-
Changes in proportion and difference between WWO contributions and proportionate share of contributions	621,403	812,985	776,366	-
	1,054,274	1,140,092	849,869	463,780
	$ 1,645,408	$ 2,017,283	$ 954,376	$ 1,202,728

(9) Retirement Fund, Continued

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

Deferred Outflows and Inflows of Resources, Continued:

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, 2015 will be recognized in pension expense as follows:

Year Ending September 30,	
EPO:	
2016	$ (9,510)
2017	(107,699)
2018	(107,699)
2019	(107,416)
2020	38,326
Thereafter	7,941
	(286,057)
WWO:	
2016	69,843
2017	(16,317)
2018	(16,317)
2019	(16,119)
2020	(88,881)
Thereafter	(18,027)
	(85,818)
	$ (371,875)

(10) Related Party Transactions

Sale of Utility Services

Utility services of $5,782,957 and $7,400,468 were rendered to the ROP for the years ended September 30, 2015 and 2014, respectively. PPUC provides utility services to the ROP at the same rates charged to third parties.

Receivables of $366,785 and $1,058,987 (excluding unbilled receivable of $437,460 and $475,484 as of September 30, 2015 and 2014, respectively) are due from the ROP for utility services as of September 30, 2015 and 2014, respectively, and are included in the receivable from affiliate in the accompanying statements of net position. Of these receivables, $217,172 and $114,683 as of September 30, 2015 and 2014, respectively, have been outstanding for more than ninety days.

(10) Related Party Transactions, Continued

Loans from the ROP

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

Merger of WWO

As part of the transfer agreement of the WWO (see note 1), the ROP was to transfer all grants, appropriations and authorized loan proceeds to PPUC to cover WWO operating costs. For the year ended September 30, 2015 and 2014, PPUC recognized $3,419,045 and $1,700,000, respectively, of WWO operating subsidies from the ROP.

In addition to the above, it was agreed that certain utility plant improvements in Koror, Melekeok and Elechui are to be transferred to PPUC when the ROP concludes related work. In 2014, the ROP transferred two of the plant improvements to PPUC aggregating $1,056,993 (see note 7).

Others

In October 2007, PPUC entered into a Maintenance Agreement with the National Government of Palau for a period of ten years in line with the ROP's utilization of alternative energy technology to reduce dependence on petroleum based fuel products through the installation of solar photovoltaic systems (PV systems). Under the agreement, the National Government shall provide necessary equipment, execute all documents required for receipt of the project resources, and coordinate with the contractor. The ROP shall also pay PPUC the energy charge produced by the PV systems and PPUC shall in turn use the payment for maintenance, repair and replacement of components of the PV systems. However, any excess cost incurred in the maintenance, repair and replacement of the PV system shall be borne by the ROP. For the years ended September 30, 2015 and 2014, the energy charge incurred by the ROP was $24,678 and $32,676, respectively.

(11) Commitments

Lease

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

Fuel Supply

In 2011, PPUC renewed its agreement with a contractor effective until December 31, 2016 for the purchase of production fuel. The purchase price was based on movements of the base price for fuel.

In March 2014, PPUC entered into a 3-year fuel supply contract with a contractor for the purchase of production fuel and vehicle fuel and lubricants. The purchase price is based on movements of the base price for fuel and lubricants.

(12) Contingencies

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

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

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

(13) Risk Management

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

(14) Dependency on the Republic of Palau

WWO incurred an operating loss of $3,784,435 for the year ended September 30, 2015. As WWO is primarily funded by the ROP subsidies, management believes that its ability to finance future WWO is dependent on continued adequate funding from the ROP.

(15) Subsequent Events

In November 2015, PPUC entered into an agreement with Marshalls Energy Company to sell $548,812 of Aimeliik generation parts and supplies inventory for $274,406 representing 50% of the inventory's recorded cost. The sale resulted in a decrease in the allowance for slow moving and obsolete inventory of $181,459.

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*

	2015	2014
Total Republic of Palau net pension liability	$ 204,281,232	$ 182,080,332
PPUC's proportionate share of the net pension liability	$ 13,135,896	$ 12,920,967
PPUC's proportion of the net pension liability	6.43%	7.10%
PPUC's covered-employee payroll**	$ 2,382,705	$ 2,629,491
PPUC's proportionate share of the net pension liability as percentage of its covered employee payroll	551.30%	491.39%
Plan fiduciary net position as a percentage of the total pension liability	14.00%	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*

	2015	2014
Actuarially determined contribution	$ 431,505	$ 446,393
Contribution in relation to the actuarially determined contribution	178,010	178,540
Contribution deficiency	$ 253,495	$ 267,853
PPUC's covered-employee payroll **	$ 2,382,705	$ 2,629,491
Contribution as a percentage of covered-employee payroll	7.47%	6.79%

* 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, 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Utility plant:				
Depreciable utility plant	$ 36,692,760	$ 10,531,626	$ -	$ 47,224,386
Non-depreciable utility plant	132,083	2,857,509	-	2,989,592
Net utility plant	36,824,843	13,389,135	-	50,213,978
Current assets:				
Cash and cash equivalents	5,181,027	3,238,889	-	8,419,916
Receivables:				
Trade	2,657,017	860,443	-	3,517,460
Affiliate	3,323,187	107,908	(3,064,310)	366,785
Contracts	102,469	30,480	-	132,949
Other	406,446	12,394	-	418,840
	6,489,119	1,011,225	(3,064,310)	4,436,034
Less allowance for doubtful accounts	(617,430)	(173,189)	-	(790,619)
Net receivables	5,871,689	838,036	(3,064,310)	3,645,415
Prepaid expenses	164,461	70,667	-	235,128
Inventory, net	7,820,744	40,731	-	7,861,475
Total current assets	19,037,921	4,188,323	(3,064,310)	20,161,934
Other non-current assets:				
Contracts receivable, net of current portion	263,442	-	-	263,442
Total assets	56,126,206	17,577,458	(3,064,310)	70,639,354
Deferred outflows of resources from pension	591,134	1,054,274	-	1,645,408
	$ 56,717,340	$ 18,631,732	$ (3,064,310)	$ 72,284,762
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Net position:				
Net investment in utility plant	$ 32,223,800	$ 12,402,237	$ -	$ 44,626,037
Unrestricted	3,742,340	(5,644,377)	-	(1,902,037)
Total net position	35,966,140	6,757,860	-	42,724,000
Commitments and contingencies				
Current liabilities:				
Current portion of long-term debt	559,186	-	-	559,186
Accounts payable	3,544,462	3,715,271	(3,064,310)	4,195,423
Accrued expenses	396,346	415,178	-	811,524
Grant advances from the Republic of Palau	500,000	157,263	-	657,263
Customer deposits	728,334	35,095	-	763,429
Total current liabilities	5,728,328	4,322,807	(3,064,310)	6,986,825
Long-term debt, net of current portion	6,433,860	986,898	-	7,420,758
Net pension liability	7,711,821	5,424,075	-	13,135,896
Total liabilities	19,874,009	10,733,780	(3,064,310)	27,543,479
Deferred inflows of resources from pension	877,191	1,140,092	-	2,017,283
	$ 56,717,340	$ 18,631,732	$ (3,064,310)	$ 72,284,762

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, 2015

	Electric Power Operations	Water and Wastewater Operations	Eliminations	Total
Operating revenues:				
Power	$ 21,057,044	$ -	$ (2,132,358)	$ 18,924,686
Water	-	2,235,057	(51,085)	2,183,972
Wastewater	-	837,609	-	837,609
Other	772,035	155,606	-	927,641
Total operating revenues	21,829,079	3,228,272	(2,183,443)	22,873,908
Provision for uncollectible receivables	-	(155,000)	-	(155,000)
Net operating revenues	21,829,079	3,073,272	(2,183,443)	22,718,908
Operating expenses:				
Generation - fuel	14,555,200	-	-	14,555,200
Depreciation	2,615,286	1,769,305	-	4,384,591
Generation - other cost	3,830,008	-	(51,675)	3,778,333
Administration	856,819	676,528	(40,878)	1,492,469
Distribution and transmission	935,307	-	(15,431)	919,876
Engineering services	496,443	-	(8,831)	487,612
Renewable energy	97,713	-	(5,931)	91,782
Water operations	-	3,523,961	(1,602,748)	1,921,213
Wastewater operations	-	887,913	(457,949)	429,964
Total operating expenses	23,386,776	6,857,707	(2,183,443)	28,061,040
Operating loss	(1,557,697)	(3,784,435)	-	(5,342,132)
Nonoperating revenues (expenses):				
Operating subsidies from the Republic of Palau	-	3,419,045	-	3,419,045
Inventory obsolescence recovery	181,459	-	-	181,459
Grants from the United States Government	102,892	-	-	102,892
Loss on disposal of utility plant	(95,584)	(3,724)	-	(99,308)
Interest income	4,219	336	-	4,555
Interest expense	(355,523)	(57,404)	-	(412,927)
Other	-	137,977	-	137,977
Total nonoperating revenues (expenses), net	(162,537)	3,496,230	-	3,333,693
Loss before capital contributions	(1,720,234)	(288,205)	-	(2,008,439)
Capital contribution:				
Donated capital from the Republic of Palau	-	123,552	-	123,552
Change in net position	(1,720,234)	(164,653)	-	(1,884,887)
Net position at beginning of year	45,510,439	12,267,767	-	57,778,206
Restatement of beginning net position	(7,824,065)	(5,345,254)	-	(13,169,319)
Net position at end of year	$ 35,966,140	$ 6,757,860	$ -	$ 42,724,000

See accompanying independent auditors' report.