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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Public Utilities Corporation:

We have audited the accompanying statements of net assets of the Public Utilities Corporation (PUC), a component unit of the Republic of Palau, as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of PUC's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PUC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of PUC as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 8 to the financial statements, the Republic of Palau (ROP) has substantial accounts receivable balances at September 30, 2010, that are outstanding for more than ninety days. The ability of ROP to repay these receivables is dependent on the Compact of Free Association that is currently pending approval by the United States Congress. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of PUC's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2011 on our consideration of the PUC'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

September 7, 2011

This Management's Discussion and Analysis (MD&A) presents the Public Utilities Corporation's (PUC) financial performance during the fiscal year ended September 30, 2010. Please read it in conjunction with the audited financial statements as of and for the year ended September 30, 2010, which follow this section.

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

MISSION AND OPERATIONS

As the electrification arm of the Palau national government, PUC is mandated by law to plan, develop and execute an electrification plan for the entire Republic. To date, PUC has succeeded in meeting its mandate with the exception of the three southern-most islands of Tobi, Sonsorol and Pulo Anna. Due to distance and isolation, electrification of these islands has been slow in developing.

PUC operates five (5) power systems throughout Palau. The two largest systems are located in Koror and Babeldaop (KB), 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. PUC's power generation is fossil fuel driven which makes it vulnerable to spikes in the fuel market. The fuel market had stabilized after the 2008 crisis. Unfortunately, we are now seeing a resurgence of the volatility with what appears to be an unchecked rise in the fuel price again. With our small pool of customers, high fuel cost, hence high electricity cost, creates a financial hardship on the Republic.

In step with the National Energy Policy (NEP), PUC has taken a bold step in the pursuit of renewable energy by the establishment of a new division in November 2010, tasked with research, exploration and development of PUC's renewable energy sector. This division, Renewable Energy Division, has already undertaken responsibility for the maintenance of the Ngerulmud Capitol Solar System and is currently working closely with the in-progress Solar System at the Palau International Airport. PUC's goal is to contribute significantly to the achievement of the 30/20/20 vision of the NEP.

In addition to energy alternatives, PUC is looking to maximize efficiency and reduce losses with upgrades to its aging equipment. Early in 2010, PUC succeeded in securing the purchase of two 5 mega watt (MW) each slightly used generators, which are currently being installed at the Malakal Power Plant with an expected commissioning date of July 15, 2011. PUC has also secured a contract for the purchase of newer, down-sized generators for the outlying states. Losses from these power systems due to oversized generators and small customer base have netted consistently at around $700K per year. PUC is also looking to revamp the Aimeliik Power Plant with essentially a new power plant equipped with two new 5MW each generators through financial assistance from a foreign grantor agency. This is expected to commence sometime in 2013.

FINANCIAL HIGHLIGHTS

On the financial side, PUC suffered another net loss (roughly $1M), however, in comparison to the last two years, this year was an improvement. The improvement was the result of a combination of a stable fuel market throughout most of the year, foreign assistance received and a stabilized but responsive fuel rate adjustment. PUC will most likely continue to suffer financial losses unless the existing tariff is revised and/or the PUC disconnection policy is made more stringent. Proposals for revisions to the existing tariff are still being evaluated by the PUC Board of Directors.

On the expense side, PUC beefed up its professional staff with the addition of a second electrical engineer, two mechanical engineers, a civil engineer, and a qualified safety officer. This contributed to the increase in engineering services. However, the investment in professional skills is expected to yield a payback in reduced yet uncompromised maintenance cost in future years. PUC realized a 22% reduction in maintenance cost this year.

During the year, PUC received two in-kind donations: a used generator unit from the national government and engine parts from a foreign aid agency.

In February 2010, management succeeded in finalizing the purchase of two (2) almost new 5MW each generators at a significant discount. A portion of PUC's investment was earmarked for this acquisition. PUC also took out a loan of $3M from an affiliate to augment the earmarked investment proceeds to cover the full cost of the generators. The project is expected to be completed by June 2011.

The PUC Board of Directors ultimately decided to fully liquidate all investments and expended most of the proceeds for generator repairs and related projects. Unexpended investment proceeds at the end of the year have been earmarked for ongoing or planned capital investment or repair projects.

The following summarizes PUC's financial position and revenues, expenses, and changes in net assets during the year.

Table 1

(Dollars in Thousands)

	Sept 30, 2010	Sept 30, 2009	Sept 30, 2008	Inc (Dec) 2010 to 2009	Inc(Dec) 2009 to 2008
Balance Sheet					
Current Assets	$ 17,480	$14,672	$24,944	$ 2,808	$ (10,272)
Other Assets	3,804	1,889	4,422	1,915	(2,533)
Net Utility Plant	23,277	25,547	25,990	(2,270)	(443)
Total Assets	44,561	42,108	55,356	2,453	(13,248)
Current Liabilities	7,057	6,555	16,585	502	(10,030)
Other Liabilities	9,117	6,616	7,134	2,501	(518)
Total Liabilities	16,174	13,171	23,719	3,003	(10,548)
Invested in Capital Assets	19,235	21,000	23,468	(1,765)	(2,468)
Unrestricted	9,152	7,937	8,169	1,215	(232)
Total Net Assets	$ 28,387	$28,937	$31,637	$ (550)	$ (2,700)

	Sept 30, 2010	Sept 30, 2009	Sept 30, 2008	Inc (Dec) 2010 to 2009	Inc(Dec) 2009 to 2008
Revenues, Expenses, and Changes in Net Assets					
Revenues:					
Power	$ 22,811	$20,010	$24,123	$ 2,801	$ (4,113)
Others	677	463	317	214	146
Provision for Bad Debts	(1,146)	(511)	(338)	(635)	(173)
Nonoperating Revenue/Expense, Net	283	304	(3,208)	(21)	3,512
Total Revenues	22,625	20,266	20,894	2,359	(628)
Operating Expenses:					
Generation - Fuel	15,804	15,185	21,758	619	(6,573)
Generation - Other Costs	2,614	3,343	2,076	(729)	1,267
Depreciation	2,614	2,538	2,400	76	138
Administration	1,139	921	944	218	(23)
Distribution and Transmission	790	828	847	(38)	(19)
Engineering Services	324	151	114	173	37
Renewable Energy	90	-	-	90	-
Total Operating Expenses	23,375	22,966	28,139	409	(5,173)
Contribution from ROP	200	-	-	200	-
Change in Net Assets	(550)	(2,700)	(7,245)	2,150	4,545
Beginning Net Assets	28,937	31,637	38,882	(2,700)	(7,245)
Ending Net Assets	$ 28,387	$28,937	$31,637	$ (550)	$ (2,700)

The following is a discussion of significant changes during the year:

- Other Assets includes a prepayment of $3.6M for the purchase of the two (2) 5MW each generators as discussed above. Installation work had not commenced as of fiscal year end. Anticipated commissioning date for the new generators is July 15, 2011.

- PUC purchased fuel stock towards year end which is stored at the Aimeliik Power Plant. The fuel value of $2.7M increased inventory with a corresponding increase to accounts payable. There was a further increase to inventory of roughly $635K contributed by donated parts from a foreign development partner, for the purpose of anticipated overhaul work on one of the Mitsubishi generators.

- PUC realized significant bad debt as a result of a material delinquency on the part of an affiliate.

Although PUC's financial position has deteriorated significantly as a result of consecutive material losses, PUC's financial health is not yet grim. Anticipated savings from the relatively new, more efficient generators for both the main electric grid and the outlying states, may enable PUC to survive its cash flow crunch. Operationally, electric sales have stabilized as compared to the adverse reaction to the 2008 fuel spike. Growth in the prepaid meter program continues to advance reducing bad debt risks. Proposed revisions to the present tariff have been formulated and presented to the PUC Board of Directors and Executive. Positive decisions are expected to ensure solvency and corporate preparedness for the ongoing power generation and fuel market challenges.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

Investment in capital assets has been minimal for the last three years due to tight cash flows. At the end of FY 2010, PUC had invested in a broad range of utility capital assets, including its power generation plants, electric transmission and distribution infrastructure, and general support and administrative equipment. PUC's investment in capital assets increased to $52.6M at the end of FY2009 and decreased to $51.1M by end of FY2010. Net value after depreciation was $23.3M, $25.5M, and $26.0M for FYs 2010, 2009, and 2008, respectively.

The following table summarizes PUC's capital assets by category and accumulated depreciation, and the changes therein for the years ended September 30, 2010, 2009, and 2008, respectively.

Capital Assets and Accumulated Depreciation
(Dollars in Thousands)

CAPITAL ASSETS:	Sept 30, 2010	Sept 30, 2009	Sept 30, 2008	Increase (Decrease) 2010 to 2009	Increase (Decrease) 2009 to 2008
Electric Plants:					
Electric Plants, Koror/Aimeliik	$ 24,874	$ 26,757	$ 24,365	$ (1,883)	$ 2,392
Electric Plants, Outlying States	2,378	2,378	2,378	-	-
Total Electric Plants	27,252	29,135	26,743	(1,883)	2,392
Accumulated Depreciation	(16,809)	(16,733)	(15,019)	(76)	(1,714)
Net Electric Plant	10,443	12,402	11,724	(1,959)	678
Transmission & Distribution (T &D) System:					
T&D System, Koror/Aimeliik	17,203	17,197	17,197	6	-
T&D System, Outlying States	2,090	2,090	2,090	-	-
Total T&D System	19,293	19,287	19,287	6	-
Accumulated Depreciation	(8,226)	(7,674)	(7,094)	(552)	(580)
Net T&D System	11,067	11,613	12,193	(546)	(580)
Administrative Equipment:					
Buildings	917	909	909	8	-
Heavy Equipment & Vehicles	1,545	1,521	1,515	24	6
Tools & Maintenance Equipment	1,104	936	771	168	165
Computers & Office Equipment	664	622	617	42	5
Total Administrative Equipment	4,230	3,988	3,812	242	176
Accumulated Depreciation	(2,809)	(2,614)	(2,378)	(195)	(236)

	Sept 30, 2010	Sept 30, 2019	Sept 30, 2008	Increase (Decrease) 2010 to 2009	Increase (Decrease) 2009 to 2008
Net Administrative Equipment	1,421	1,374	1,434	47	(60)
Capital Improvement Projects:					
APP Plant Renovation	134	-	-	134	-
2MW CAT Generator	211	-	-	211	-
Pielstick Engine 3 Rehabilitation	-	-	639	-	(639)
Accounting & Billing Systems	-	158	-	(158)	158
Total Capital Projects in Progress	345	158	639	187	(481)
TOTAL FIXED ASSETS	$ 23,276	$ 25,547	$ 25,990	$ (2,271)	$ (443)

The following major Capital Improvement Projects were completed during the last three fiscal years:

FY2008:	Mobile CAT Generators (2 units)	$1,378,026
FY2009:	Rehabilitation of Pielstick Unit #2	$ 720,387
	Rehabilitation of Pielstick Unit #3	$ 797,346
	Mitsubishi Radiators	$ 861,350
FY2010:	Accounting & Billing Systems and Server	$ 145,875

Ongoing Capital Improvement Projects are identified above.

As noted in the table above, there was minimal investment in capital assets due to lack of financial resources. PUC's capital improvement plans still conform with certain sections of the master plan developed for PUC in FY2009. The master plan identifies forward-looking strategies based on externally developed assumptions about PUC's demographics and customer demands up to year 2025. Contingent on approval and award of financial assistance by a foreign development partner, PUC expects to implement part of the plan which calls for expansion of the Aimeliik Power Plant with an additional 10MW of generation capacity by 2013 or 2014.

PUC continues to pursue alternative renewable energy. A formal plan has yet to be formulated to provide concrete and measurable milestones in this regard.

Please see note 6 for additional information regarding PUC's capital assets.

Long-Term Debt

A loan of $3M was acquired in FY 2010 to finance the purchase of two generator sets as discussed at "Financial Highlights" Section above. Additionally, a portion of the $7M loan with a foreign bank was repaid. Please see note 7 to the financial statements for additional information regarding PUC's long-term debt.

Management Discussion and Analysis - 2009

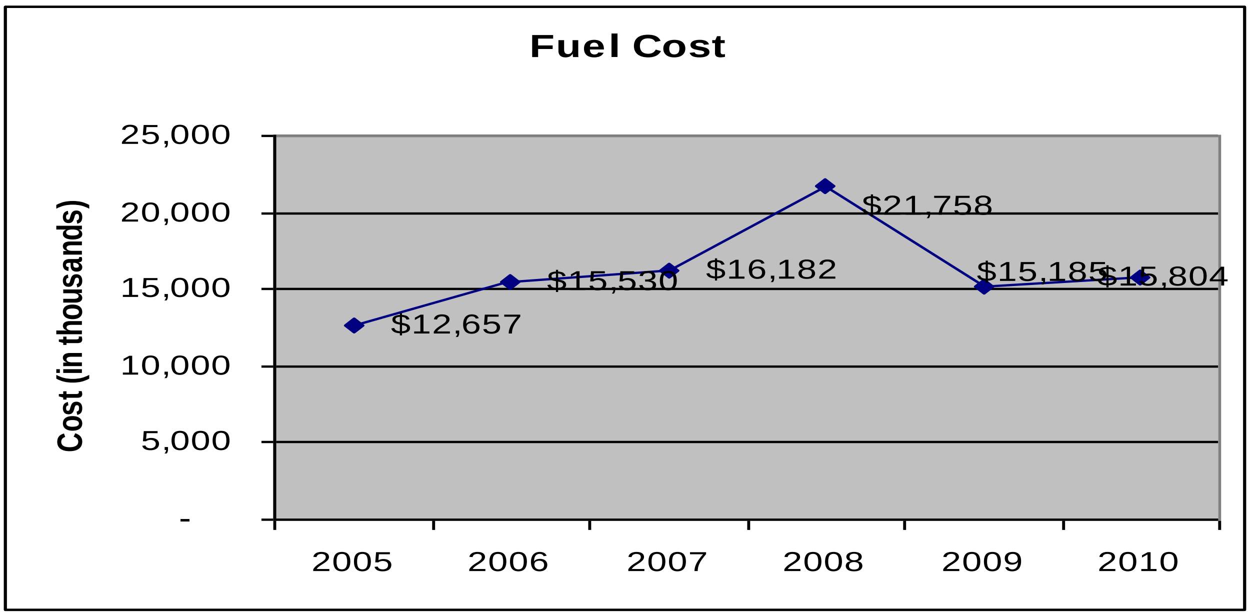
Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in the audit report of PUC's financial statements, which is dated March 26, 2010. That report can be obtained by contacting the PUC Accounting Department as set forth on page 10.

ECONOMIC FACTORS and OUTLOOK

Fuel Market

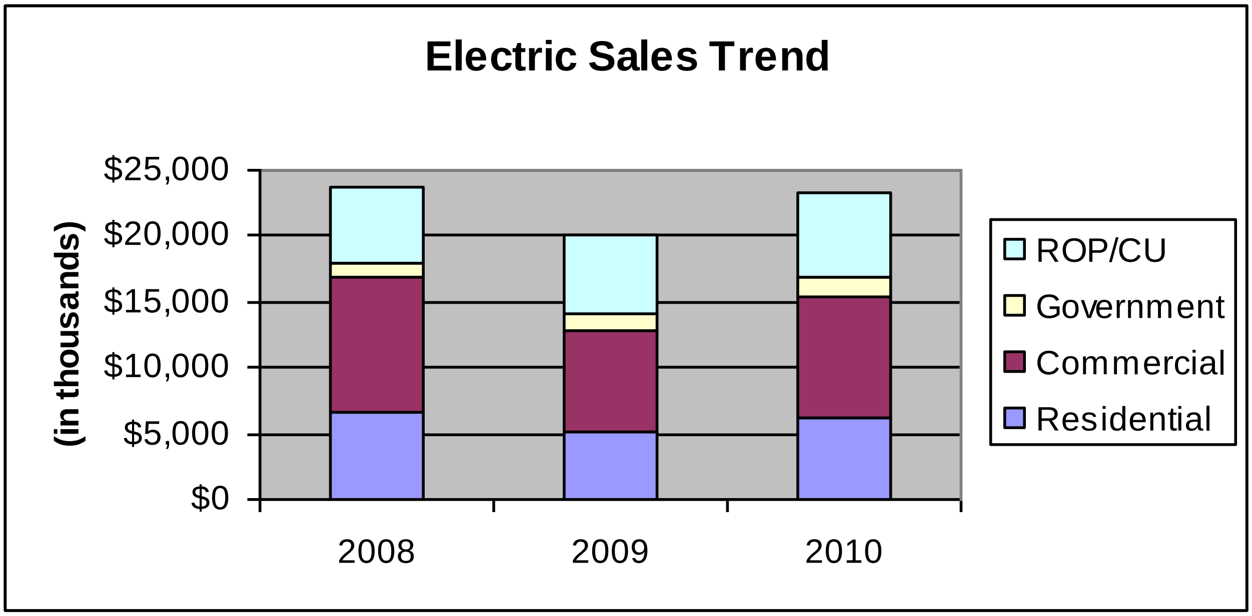
Fuel cost makes up over 60% of PUC's operating costs. Due to size and location, PUC's dependence on fossil fuel is likely to continue for several years and price volatility will continue to be a germane factor in PUC's efforts towards both power and rate stability. A recent market performance in the Asian gasoil market, a major fall in the Singapore benchmark, demonstrates the volatility of the fuel market. At present, the outlook may be a steady rise with projected global demands. PUC's vulnerability is clear and efforts will continue to contain this risk.

The cost trend of fuel for the past six years is an uphill slope (see chart below) with a temporary drop in 2009.

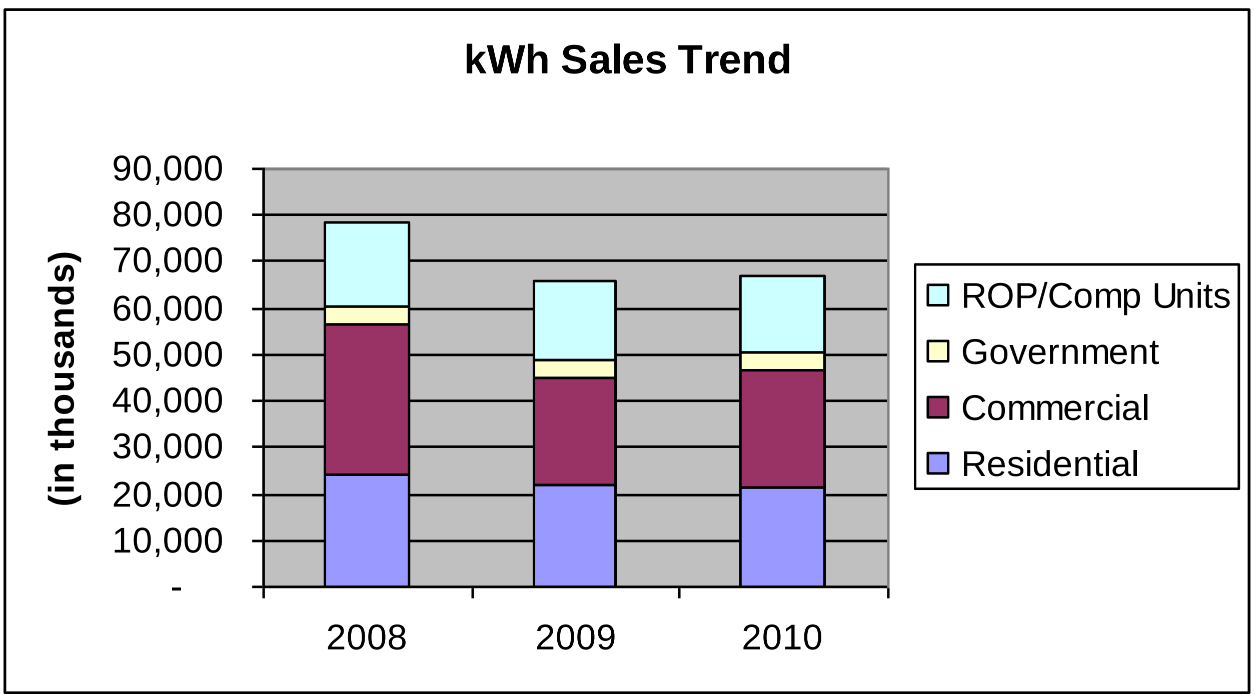


Conditions in the Middle East continue to drive the cost upward, which may make renewable energy a more cost-effective energy source in the future. PUC is continuing its efforts, aided by development partners and the Palau Chamber of Commerce (PCOC), to diversify its energy source and reduce dependence on fossil fuel. An effort is currently underway by PCOC to pilot-test *Jatropha curcas* production in Palau. Studies indicate that this bio-fuel gives the best yield in terms of energy efficiency. Should the pilot project succeed, quantum strides toward energy independence may become a reality.

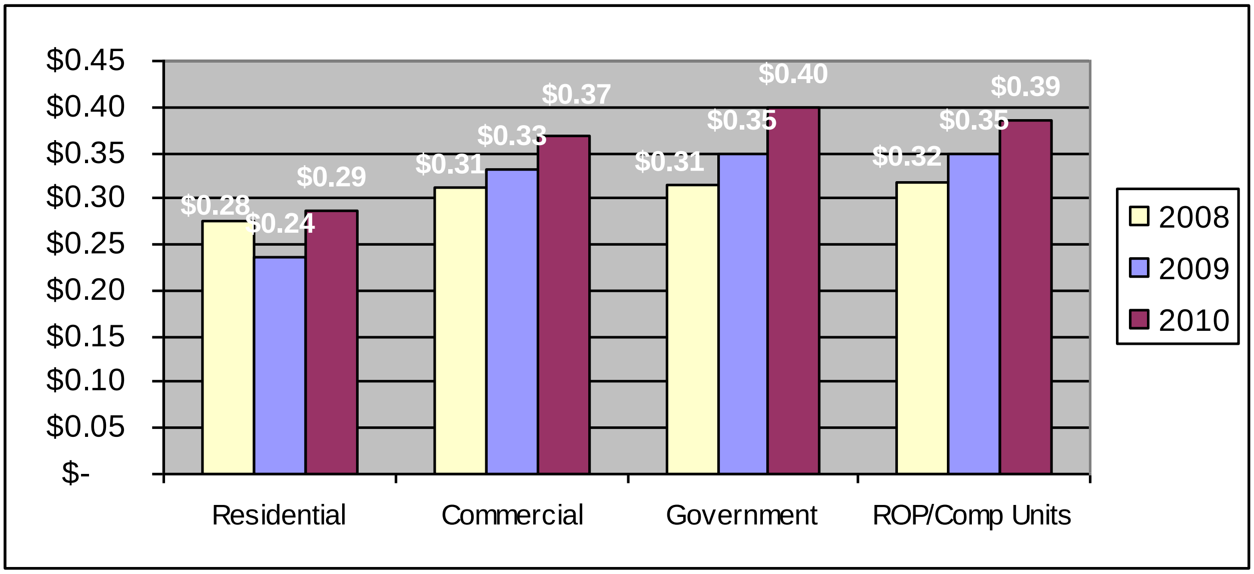
Fuel impact is evident in our sales performance. Sales see-sawed the last three years due to several factors, but primarily fuel cost. The steep spikes in the fuel market in 2008 provoked unforeseen energy conservation efforts which carried throughout 2009, resulting in a drop in sales by 16%. PUC saw some recovery in 2010 after fuel price had stabilized. The charts below illustrate this impact on sales performance over the last three years.



Overall gross sales dropped by 16% in 2009 but recovered in 2010 as discussed above.



Overall kWh unit sales dropped by 16% in 2009 and slightly rebounded in 2010 by 2%.



Electric rates have steadily increased over the last three years in response to the ever-rising fuel cost. The revised tariff schedule adopted in the latter part of 2008 had shifted the cost burden of generation and fuel from residential to commercial and government customers. This is noted by the drop in the average residential rate in 2009. The electric rates are designed to commensurate with fuel cost, accordingly, they will rise and fall in tandem with the world market fuel price. The temporary reprieve in 2009 in fuel price only allowed PUC to catch up with delayed fuel price adjustments under the old fuel adjustment mechanism.

FUTURE OUTLOOK

PUC will continue to exert efforts towards the NEP targets of 30/20/20. Renewable energy continues to attract development partners sympathetic to global warming issues. PUC's efforts should be towards energy diversification and generation upgrades to assure energy production stability and to benefit from cutting-edge technological advances.

Palau's economic outlook is fair with cues of a successful conclusion to the Compact of Free Association (COFA) negotiations. 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 spells a relief to PUC's bad debt problems with the national government being PUC's largest customer as well as the single largest employer on island.

CONTACTING PUC'S FINANCIAL MANAGEMENT

This financial report is designed to provide PUC's rate payers and creditors with a general overview of PUC's finances and to demonstrate PUC's accountability for the money it receives. If you have questions about this report, or need additional information, contact the PUC Accounting Department at the Palau Public Utilities Corporation, P.O. Box 1372, Koror, Republic of Palau 96940, or e-mail jalexander@PUC.com or call 488-5320.

PUBLIC UTILITIES CORPORATION

Statements of Net Assets
September 30, 2010 and 2009

ASSETS	2010	2009
Utility plant:		
Electric plant	$ 27,251,933	$ 29,135,444
General support equipment	22,746,036	22,708,297
Administrative equipment	776,907	565,573
Utility plant in service	50,774,876	52,409,314
Accumulated depreciation	(27,843,879)	(27,020,545)
Net utility plant in service	22,930,997	25,388,769
Construction in progress	345,390	158,087
Net utility plant	23,276,387	25,546,856
Current assets:		
Cash and cash equivalents	1,876,845	1,451,410
Restricted cash	1,954,168	764,130
Investments	-	4,814,319
Receivables:		
Trade	2,971,231	2,228,780
Affiliate	5,341,536	2,681,435
Other	68,235	67,801
	8,381,002	4,978,016
Less allowance for doubtful accounts	(2,576,000)	(1,446,000)
Total receivables, net	5,805,002	3,532,016
Prepaid expenses	194,948	127,106
Inventory, net	7,621,630	3,954,091
Due from grantor agency	27,756	29,390
Total current assets	17,480,349	14,672,462
Other non-current assets:		
Deposit for new generators	3,604,156	-
Receivable from a local bank, net	200,000	200,000
Restricted investments	-	1,689,038
Total other assets	3,804,156	1,889,038
	$ 44,560,892	$ 42,108,356
LIABILITIES AND NET ASSETS		
Net assets:		
Invested in capital assets, net of related debt	$ 19,234,711	$ 21,000,024
Unrestricted	9,152,618	7,937,200
Total net assets	28,387,329	28,937,224
Commitments and contingencies		
Current liabilities:		
Current portion of long-term debt	483,491	400,000
Accounts payable	5,636,593	2,514,465
Accrued expenses	492,530	328,801
Customer deposits	444,440	528,531
Short-term borrowings	-	2,667,132
Capital lease liability	-	113,033
Unearned revenue	-	3,023
Total current liabilities	7,057,054	6,554,985
Long-term debt	9,116,509	6,600,000
Other liabilities	-	16,147
Total liabilities	16,173,563	13,171,132
	$ 44,560,892	$ 42,108,356

See accompanying notes to financial statements.

PUBLIC UTILITIES CORPORATION

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Power	$ 22,810,549	$ 20,009,695
Other	677,241	462,937
Total operating revenues	23,487,790	20,472,632
Less provision for uncollectible receivables	(1,145,740)	(510,950)
Net operating revenues	22,342,050	19,961,682
Operating expenses:		
Generation - fuel	15,804,013	15,185,395
Generation - other cost	2,614,425	3,342,742
Depreciation	2,613,498	2,537,663
Administration	1,139,363	920,602
Distribution and transmission	790,065	827,814
Engineering services	323,755	150,566
Renewable energy	89,556	-
Total operating expenses	23,374,675	22,964,782
Operating loss	(1,032,625)	(3,003,100)
Nonoperating revenues (expenses):		
Grants from the United States Government	83,644	206,019
Other grants from the Japan International Cooperation Agency	635,774	-
Net increase in fair value of investments	165,376	396,731
Interest income	1,159	24,159
Gain (loss) on disposal of assets	(260,096)	2,189
Interest expense	(334,321)	(309,114)
Other	(8,806)	(16,381)
Total nonoperating revenues (expenses), net	282,730	303,603
Loss before capital contributions	(749,895)	(2,699,497)
Capital contributions:		
Contribution from the Republic of Palau	200,000	-
Change in net assets	(549,895)	(2,699,497)
Net assets at beginning of year	28,937,224	31,636,721
Net assets at end of year	$ 28,387,329	$ 28,937,224

See accompanying notes to financial statements.

PUBLIC UTILITIES CORPORATION

Statements of Cash Flows
Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 19,958,374	$ 18,311,656
Cash payments to suppliers for goods and services	(18,522,968)	(22,445,353)
Cash payments to employees for services	(2,143,887)	(1,871,359)
Net cash used for operating activities	(708,481)	(6,005,056)
Cash flows from investing activities:		
Proceeds from sale and maturities of investment securities	15,738,454	4,239,381
Interest and dividends on investments	171,378	220,976
Net change in time certificates of deposit	-	627,459
Interest received on time certificates of deposit	-	44,064
Other non-operating	(7,647)	(16,381)
Net change in restricted cash	(1,190,038)	(508,077)
Purchase of investment securities	(9,241,099)	(295,007)
Net cash provided by investing activities	5,471,048	4,312,415
Cash flows from non-capital financing activities:		
Cash received from grantor agencies	85,278	238,019
Proceeds from short-term borrowings	440,000	2,476,067
Cash returned from fuel subsidy	-	(945,987)
(Payments) obligation under a capital lease	(113,033)	113,033
Principal payment on short-term borrowings	(3,107,132)	(850,000)
Interest paid on short-term debt	(67,175)	(60,711)
Change in other liabilities	(16,147)	-
Net cash (used for) provided by non-capital financing activities	(2,778,209)	970,421
Cash flows from capital and related financing activities:		
Proceeds from long-term borrowings	3,000,000	-
Principal payment on long-term debt	(400,000)	(163,486)
Interest paid on long-term debt	(151,642)	(248,403)
Deposit for new generators	(3,604,156)	-
Acquisition of utility plant	(403,125)	(2,092,388)
Net cash used for capital and related financing activities	(1,558,923)	(2,504,277)
Net change in cash and cash equivalents	425,435	(3,226,497)
Cash and cash equivalents at beginning of year	1,451,410	4,677,907
Cash and cash equivalents at end of year	$ 1,876,845	$ 1,451,410
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (1,032,625)	$ (3,003,100)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	2,613,498	2,537,663
Provision for uncollectible receivables	1,145,740	510,950
(Increase) decrease in assets:		
Receivables:		
Trade	(758,191)	538,464
Affiliate	(2,660,101)	(2,675,893)
Other	(434)	(50,542)
Prepaid expenses	(67,842)	(63,100)
Inventory	(3,031,765)	5,772,678
Increase (decrease) in liabilities:		
Accounts payable	3,194,647	(7,953,712)
Accrued expenses	(27,317)	32,781
Customer deposits	(84,091)	26,995
Payable to a fuel contractor	-	(1,678,240)
Net cash used for operating activities	$ (708,481)	$ (6,005,056)

See accompanying notes to financial statements.

PUBLIC UTILITIES CORPORATION

Statements of Cash Flows, Continued
Years Ended September 30, 2010 and 2009

Non-cash transactions:

PUC recorded a net increase in fair value of investments of $165,376 and $396,731 for the years ended September 30, 2010 and 2009, respectively.

PUC recorded noncash contributions of $200,000 and $635,774 representing a generator and various power plant supplies, respectively, at September 30, 2010.

PUC applied $1,612,390 of fuel subsidy received against receivables as of September 30, 2009.

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 managed 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 is to establish and operate electrical utility services within ROP.

PUC's financial statements are incorporated into the financial statements of ROP as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of PUC conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. PUC has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Net Assets

Net assets represent the residual interest in PUC's assets after liabilities are deducted and consist of four sections: invested in capital assets, net of related debt; restricted expendable and nonexpendable, and unrestricted. Net assets invested in capital assets, net of debt, include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. All other net assets are unrestricted.

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.

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents include cash on hand, demand deposits and time certificates of deposit with original maturities of three months or less. Time certificates of deposit with original maturities greater than three months are separately classified.

Receivables

PUC grants credit, on an unsecured basis, to individuals, businesses and governmental entities situated in the Republic of Palau. 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.

Investments

Investments are reported at fair value using quoted market prices. Fair value is the amount at which a financial instrument could be exchanged between willing parties, other than in a forced or liquidation sale.

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 is stated at cost. PUC capitalizes utility plant in excess of $500. Depreciation is provided using the straight line method over the estimated useful lives of the respective assets.

Capitalization of Interest

PUC capitalizes interest in order to recognize all costs associated with construction based on PUC's weighted average borrowing rate. During the years ended September 30, 2010 and 2009, $93,180 and $22,831, respectively, of eligible interest was capitalized.

New Accounting Standards

During fiscal year 2010, PUC implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of PUC.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PUC.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of PUC.

Sales of Electricity

Sales of electricity are recorded as billed to customers on a monthly cycle billing basis. 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, 2010 and 2009 were $1,456,870 and $1,078,333, respectively.

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

PUC contributes to the Palau Civil Service Pension Trust Fund (the Fund), a defined benefit, cost-sharing, multiple employer pension plan established and administered by the Republic of Palau.

The Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the Republic of Palau, Republic of Palau State Governments and Republic of Palau agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are the credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. Members who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. RPPL 2-26 is the authority under which benefit provisions are established. Member contribution rates are established by RPPL 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. PUC contributed $97,503, $85,865 and $83,855 to the Fund during the fiscal years 2010, 2009 and 2008, respectively, which were equal to the required contributions for the respective years then ended.

Under the provisions of RPPL 2-26, the Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law, and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. PUC's total payroll, except expatriate workers, for fiscal years 2010 and 2009 is covered by the Fund's plan. The Fund utilizes the actuarial cost method termed "aggregate cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 8.5% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employment service to date. The measure is intended to assist users to evaluate the Fund's funding status on a going-concern basis, and evaluate progress made in accumulating adequate assets to pay benefits when due.

The Fund's October 1, 2009 actuarial valuation determined the unfunded pension benefit obligation as follows:

Participants in pay status	$ 47,666,805
Active participants	56,060,970
Participants with vested deferred benefits	1,779,610
Total pension benefit obligation	105,507,385
Net assets available for benefits, at market value	(41,254,319)
Unfunded benefit obligation	$ 64,253,066

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.

(2) Summary of Significant Accounting Policies, Continued

Taxes

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

Compensated Absences

Accumulated unpaid annual leave is accrued when earned and is included in the statements of net assets 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 assets as an accrued expense.

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses include all direct and administrative revenues and expenses associated with the generation and distribution of electricity to customers in the Republic of Palau.

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

(3) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 Deposits that are federally insured or collateralized with securities held by PUC or its agent in PUC's name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in PUC's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in PUC's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, PUC'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. PUC does not have a policy for custodial credit risk for deposits.

(3) Deposits and Investments, Continued

Deposits, Continued

As of September 30, 2010 and 2009, cash and cash equivalents and time certificates of deposit were $3,831,013 and $2,215,540, respectively, and the corresponding bank balances were $5,574,631 and $5,498,059, respectively. Of these amounts, $2,625,502 and $3,706,527, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, bank deposits in the amount of $351,239 and $250,000, respectively, were FDIC insured. PUC 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.

PUC's restricted cash of $1,954,168 and $764,130 as of September 30, 2010 and 2009, respectively, represent the unspent portion of proceeds from PUC's loan with a foreign bank (see note 7).

Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by PUC or its agent in PUC's name;

Category 2 Investments that are uninsured or unregistered for which the securities are held by the counterparty's trust department or agent in PUC's name; or

Category 3 Investments that are uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in PUC's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks for investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

The following investment policy governs the investment of assets of PUC.

General:

a. Any restrictions set forth by applicable law governing allocation limits, size, or quality of investments, if more stringent than PUC's investment policy, will be the governing restriction.

b. No investment management organization shall have more than 40% of the Capital Investment Reserves Fund.

c. U.S. and non-U.S. common stocks, American Depository Receipts, convertible bonds, preferred stocks, fixed income securities, mutual funds and short-term securities are permissible investments.

(3) Deposits and Investments, Continued

Investments, Continued

d. No individual security of any issuer, other than that of the U.S. Government, shall constitute more than 10% (at cost) of any investment manager's portfolio.

e. The following securities and transactions are not authorized without prior Board approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; short sales; margin transactions; and options and futures.

Equities:

a. Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive.

b. Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on major exchanges.

c. Investment managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the investment managers will be evaluated against their peers on the performance of the total funds under their direct management.

d. Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any state, district, territory, or any foreign country are permissible investments.

Fixed Income:

a. All fixed income securities held in the portfolio shall have a Moody's or Standard & Poor's credit quality rating of no less than "BBB". U.S. Treasury and Agency securities, while non-rated, qualify for inclusion in the portfolio.

b. No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the manager has specific written authorization. 80% of the fixed income portfolio must be in bonds of credit quality equal to or greater than "A".

c. The total portfolio quality (capitalization weighted) shall maintain an "A" minimum rating.

d. It is the Policy of the Board to place assets in local certificates of deposit (Local CDs) issued by local banking institutions, with the express purpose of making funds available to the local community in the form of loans. While these local CDs are held, they will be included in the "strategic asset allocation" as fixed income investments. However, these local CDs and the local banking institutions must meet the following criteria on an ongoing basis: (1) The local CDs must offer a competitive return relative to alternative issuers; and (2) the local banking institutions must provide quarterly financial statements for the Board of Directors review. The Board of Directors is charged with monitoring the financial health of the local banking institutions. Should concerns arise with respect to the financial condition of the local banking institutions, appropriate action is to be determined and taken.

(3) Deposits and Investments, Continued

Investments, Continued

Cash and Equivalents:

a. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations are permissible.

b. All commercial paper issuers must maintain an "A1" rating by Standard & Poor's and a "P-1" rating by Moody's Investor Service and be issued by corporations domiciled within the United States having total assets in excess of one billion dollars.

c. All certificate of deposit issuers must have a minimum capital of ten million dollars.

d. Repurchase agreements must be collateralized with either: (1) U.S. Treasury or Agency Securities with a market value of 102%, marked to market daily; or, (2) money market instruments which meet the qualifications of the investment policy statement and with a market value of 102%, marked to market daily.

e. Money market funds must be registered with the Securities and Exchange Commission under the Investment Company Act of 1940.

f. No single issue shall have a maturity of greater than one year.

g. The money market funds must have an average maturity of less than one year.

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, PUC will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of September 30, 2010 and 2009, PUC's cash of $2,949,130 and cash and investments of $7,530,758, respectively, are held and administered by investment managers subject to Securities Investor Protection Corporation insurance in accordance with PUC's investment policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments.

As of September 30, 2009, investments at fair value are as follows:

Fixed income securities	$ 3,771,071
Other investments:	
Domestic equities	2,732,286
	$ 6,503,357

PUC's restricted investments as of September 30, 2009 amounting to $1,689,038 represent the unspent portion of proceeds from PUC's loan with a foreign bank (see Note 7).

(3) Deposits and Investments, Continued

Investments, Continued

As of September 30, 2009, PUC's fixed income securities had the following maturities:

Investment Type	Fair Value	Less than 1 year	1 - 5	6-10	More than 10	Rating
		Investment Maturities (in years)				
U.S. Treasury Notes and Bonds	$ 1,643,479	$ 208,002	$ 605,284	$ 659,457	$ 170,736	AAA
Mortgage and asset back securities	668,367	-	52,802	123,783	491,782	AAA
Corporate Bonds	54,855	-	54,855	-	-	AA+
Corporate Bonds	138,438	-	45,403	-	93,035	AA
Corporate Bonds	46,843	-	46,843	-	-	AA-
Corporate Bonds	139,489	-	92,768	46,721	-	A+
Corporate Bonds	253,738	-	93,043	160,695	-	A
Corporate Bonds	47,312	-	-	-	47,312	A-
Corporate Bonds	282,390	-	45,461	90,029	146,900	BBB+
Corporate Bonds	118,867	-	118,867	-	-	BBB
Corporate Bonds	146,393	-	-	54,102	92,291	BBB-
International Bonds	45,889	-	-	-	45,889	AA-
International Bonds	136,589	-	91,531	-	45,058	A-
International Bonds	48,422	-	-	48,422	-	BBB+
	$ 3,771,071	$ 208,002	$ 1,246,857	$ 1,183,209	$ 1,133,003	

Receivable from a Local Bank:

At September 30, 2010 and 2009, PUC has uninsured deposits of $2,058,378 with a bank that went into receivership on November 7, 2006. These deposits are reflected net of allowance of $1,858,378 at September 30, 2010 and 2009 and are recorded as a receivable from a local bank in the accompanying statements of net assets.

(4) Due from Grantor Agency

PUC is a subrecipient of federal grants received by 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.

Changes in the due from grantor agency accounts for the years ended September 30, 2010 and 2009, are as follows:

	2010	2009
Balance at beginning of year	$ 29,390	$ 61,390
Deductions - cash receipts from grantor agencies	(85,278)	(238,019)
Additions - program outlays	83,644	206,019
Balance at end of year	$ 27,756	$ 29,390

(5) Inventory

Inventory at September 30, 2010 and 2009, consists of the following:

	2010	2009
Distribution and power plant supplies	$ 4,194,974	$ 2,807,003
Fuel	3,589,735	1,315,334
Lubricants	11,389	6,222
	7,776,098	4,128,559
Provision for slow moving inventory	(174,468)	(174,468)
	$ 7,621,630	$ 3,954,091

(6) Utility Plant and Construction in Progress

Utility plant and construction in progress consist of the following detailed balances at September 30, 2010 and 2009:

	Estimated Useful Lives	Balance at October 1, 2009	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2010
Depreciable assets:					
Electric plant	3 - 25 years	$ 29,135,444	$ 115,500	$ (1,999,011)	$ 27,251,933
General support equipment	2 - 30 years	22,708,297	90,389	(52,650)	22,746,036
Administrative equipment	2 - 10 years	565,573	211,334	-	776,907
		52,409,314	417,223	(2,051,661)	50,774,876
Less accumulated depreciation		(27,020,545)	(2,613,498)	1,790,164	(27,843,879)
		25,388,769	(2,196,275)	(261,497)	22,930,997
Non-depreciable assets:					
Construction in progress		158,087	439,117	(251,814)	345,390
		$ 25,546,856	$ (1,757,158)	$ (513,311)	$ 23,276,387

	Estimated Useful Lives	Balance at October 1, 2008	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2009
Depreciable assets:					
Electric plant	3 - 25 years	$ 26,742,711	$ 2,392,733	$ -	$ 29,135,444
General support equipment	2 - 30 years	22,532,598	175,699	-	22,708,297
Administrative equipment	2 - 10 years	566,499	7,485	(8,411)	565,573
		49,841,808	2,575,917	(8,411)	52,409,314
Less accumulated depreciation		(24,491,283)	(2,537,663)	8,401	(27,020,545)
		25,350,525	38,254	(10)	25,388,769
Non-depreciable assets:					
Construction in progress		639,416	1,911,404	(2,392,733)	158,087
		$ 25,989,941	$ 1,949,658	$ (2,392,743)	$ 25,546,856

(7) Borrowings and Other Liabilities

Short-Term Borrowings

PUC entered into a portfolio credit line agreement in March 2008 under which a commercial bank will extend credit to PUC in the form of drawings from time to time in such sums as PUC may request for the purpose of financing short-term working capital. Interest is 3.45% and 3.75% as of September 30, 2010 and 2009, respectively. The loan was fully paid in August 2010. The balance at September 30, 2009 is collateralized by PUC's unrestricted investments of $4,814,319.

Movements in short-term borrowings for the years ended September 30, 2010 and 2009, are as follows:

	Balance at October 1, 2009	Additions	Repayments	Balance at September 30, 2010
Portfolio credit line	$ 2,667,132	$ 440,000	$ (3,107,132)	$ -

	Balance at October 1, 2008	Additions	Repayments	Balance at September 30, 2009
Portfolio credit line	$ 1,041,065	$ 2,476,067	$ (850,000)	$ 2,667,132

Long-Term Debt

On September 4, 2006, PUC entered into a loan with a foreign bank not to exceed $7,000,000 with interest at 3.5% per annum 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 installments in the principal amount 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.

On April 21, 2010, PUC entered into a loan with a development bank, an affiliate, for $3,000,000 to finance the purchase of two generator sets. The loan 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 payments of $27,810 plus accrued interest. Payment of interest during the eight month grace period will be spread over twelve months with an equal payment of $12,500 per month starting January 30, 2011.

(7) Borrowings and Other Liabilities, Continued

Long-Term Debt, Continued

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

Year Ending September 30,	Principal	Interest	Total
2011	$ 483,491	$ 505,655	$ 989,146
2012	518,449	459,271	977,720
2013	528,262	403,426	931,688
2014	538,219	379,275	917,494
2015	548,950	354,350	903,300
2016 - 2020	2,936,214	1,368,067	4,304,281
2021 - 2025	3,361,472	587,364	3,948,836
2026 - 2027	684,943	15,930	700,873
	$ 9,600,000	$ 4,073,338	$ 13,673,338

Movements in long-term liabilities for the years ended September 30, 2010 and 2009, are as follows:

	Balance at October 1, 2009	Additions	Repayments	Balance at September 30, 2010	Balance Due in One Year
Long-term debt	$ 7,000,000	$3,000,000	$ (400,000)	$ 9,600,000	$ 483,491
Other liabilities	16,147	-	(16,147)	-	-
	$ 7,016,147	$3,000,000	$ (416,147)	$ 9,600,000	$ 483,491

	Balance at October 1, 2008	Additions	Repayments	Balance at September 30, 2009	Balance Due in One Year
Long-term debt	$ 7,000,000	$ -	$ -	$ 7,000,000	$ 400,000
Term loan	163,486	-	(163,486)	-	-
Other liabilities	16,147	-	-	16,147	-
	$ 7,179,633	$ -	$ (163,486)	$ 7,016,147	$ 400,000

(8) Related Party Transactions

Utility services of $6,252,423 and $5,724,657 were rendered to ROP for the years ended September 30, 2010 and 2009, respectively. PUC provides electrical utility services to ROP at the same rates charged to third parties.

Receivables of $5,341,536 and $2,681,435 (gross of allowance for doubtful accounts of $2,284,000 and $1,040,000) are due from ROP as of September 30, 2010 and 2009, respectively. Of these receivables, $3,438,847 and $1,420,402 as of September 30, 2010 and 2009, respectively, have been outstanding for more than ninety days. Collectability of these receivables is largely dependent on the Compact of Free Association that is currently pending approval by the United States Congress. No adjustments have been recorded for this uncertainty.

(8) Related Party Transactions, Continued

On June 20, 2008, RPPL 7-47 was enacted into law mandating ROP to earmark $3,000,000 to PUC. The grant was used to subsidize fuel charges to residential and commercial customers whose usage is no more than 500 or 2,000 kilowatt hours per month, respectively, so that amounts due from those customers will equal the effective rate on May 31, 2008. The subsidy was effective until rates are reduced to May 31, 2008 levels or lower; or the date when the reduction in revenues to PUC caused by the credit reaches the amount of the grant, after which time the Electric Service Rate Schedules, effective June 5, 2008, shall go into effect. As of September 30, 2009, the subsidy applied against electric receivables was $232,489.

In 2009, RPPL 8-6 was enacted into law allowing PUC to apply the balance of the subsidy grant to the National Government accounts upon a certain memorandum of understanding between PUC and ROP. The amount of the subsidy grant applied to National Government accounts was $1,379,901. Further, the law required PUC to transfer the remaining subsidy grant of $945,987 to ROP in 2009.

In October 2007, PUC entered into a Maintenance Agreement with the National Government of Palau for a period of ten years in line with the ROP's utilizing 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. ROP shall also pay PUC the energy charge produced by the PV systems and PUC shall in turn use the payment in the 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 ROP. As of September 30, 2010 and 2009, the energy charge incurred by ROP was $37,994 and $16,902, respectively.

(9) Commitments

PUC entered into an agreement on October 14, 1999 with the Republic of Palau, State of Koror and Koror State Public Land Authority, in which PUC 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. PUC is not required to pay rent or fee for its use of the property.

In February and March 2008, PUC entered into commercial supply agreements with two contractors each ending in 2011 in which PUC will purchase production and vehicle fuel and lubricants. Purchase prices are based on movements of the base price for fuel and lubricants.

(9) Commitments, Continued

In July 2008, PUC entered into a Memorandum of Understanding with one of its fuel contractors for the installation of a mooring buoy system at PUC's Aimeliik power plant. The fuel contractor shall pay and install the mooring buoy system including all costs associated with the purchase of the buoys and mooring equipment and the transportation thereof to the site. The cost of the mooring equipment and related installation is estimated to be $495,000. However, PUC shall reimburse the fuel contractor only for the costs associated with the installation of the buoy system upon presentation of proof of payments which is estimated to be $170,000. The reimbursement shall be payable in eighteen monthly installments commencing on the completion of the buoy system with interest on late payments based on the interest rate provided for under the commercial supply agreement with the fuel contractor. PUC and the fuel contractor shall have the legal title to the buoy system. Further, the fuel contractor shall have the exclusive use and sole responsibility for the maintenance and repair of the buoy system for a term concurrent with the term of the commercial supply agreement or any succeeding future commercial supply agreement. However, upon termination of the commercial supply agreement, PUC shall purchase the buoy system at a price equal to the depreciated value of the buoy system based on a depreciable life of fifteen years. The remaining unpaid balance due to the fuel contractor is presented as a capital lease liability in the accompanying statement of net assets as of September 30, 2009. The capital lease liability was paid in full during the year ended September 30, 2010.

(10) Contingencies

As of September 30, 2010, PUC is in noncompliance with certain debt covenants related to its loan with a development bank. The ultimate outcome of such noncompliance is not determinable at September 30, 2010 and, accordingly, no provision or adjustment for the impact of the contingency has been recognized in the accompanying financial statements.

On April 17, 2009, the Appellate Court reversed the Trial Court's decision related to a judgment rendered to PUC on its dispute with a fuel contractor in 2006. The dispute arose from differing interpretations of product pricing and unpaid invoices. The Appellate Court also remanded the case to the Trial Division for the purpose of calculating and entering judgment in accordance with the Appellate Court's opinion. In accordance with the Appellate Court's decision, PUC is to pay the fuel contractor the difference in product pricing and unpaid invoices and related interest calculated at 9% per annum. As a result, PUC fully settled the $1,751,636 liability in September 2009.

PUC currently does not maintain insurance coverage with respect to its inventory and utility plant. In the event of a loss, PUC will be self insured for the entire amount.

Under the provisions of RPPL 4-51, PUC 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 PUC, 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 PUC 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.

(11) Risk Management

PUC 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. PUC 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.

(12) Dependency on Improved Collection and Operations

PUC has incurred losses from operations of $1,032,625 and $3,003,100 and negative cash flows from operations of $708,481 and $6,005,056 for the years ended September 30, 2010 and 2009, respectively. PUC recorded provisions for uncollectible receivables of $1,145,740 and $510,950 for the years ended September 30, 2010 and 2009, respectively. Management believes that the continuation of PUC's operations is dependent upon the future payment of utility services provided to ROP, the collection of long outstanding receivables, and/or continued improvements in operations.