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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

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, 2009 and 2008, 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, 2009 and 2008, 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.

The Management's Discussion and Analysis on pages 3 through 13 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 March 26, 2010 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

March 26, 2010

This Management's Discussion and Analysis (MD&A) presents the Public Utilities Corporation's (PUC) financial performance during the fiscal year ended September 30, 2009. Please read it in conjunction with the audited financial statements as of and for the year ended September 30, 2009, 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.

OPERATION AND FINANCIAL HIGHLIGHTS

PUC continued its track of rehabilitating and repairing some of its existing generators during FY2009. Procurement of additional units to augment its dwindling generation capacity was commenced during the year as well. The additional units will increase PUC's capacity by 10 Megawatt (MW), boosting its national grid capacity to 27MW. The recorded high peak demand during the year was 13MW.

Part-way through the year, there was a major changeover in management and the Board of Directors incumbents. A radical paradigm shift of generation strategy tailgated the leadership shift with an increased concentrated focus on renewable energy. The result was the creation of a renewable energy division within PUC's operations, with the purpose of exploring and pursuing implementation of alternative energy initiatives. Concrete goals and strategy of this focus is yet to be formalized.

PUC continued to expand its prepaid metering program through partnership with the U.S. Department of the Interior/Operations and Maintenance Improvement Program during the year as well. PUC has succeeded in converting 16% of its customer base to the prepaid metering program. This project is intended to continue with the aim of reducing receivables. PUC has seen a reduction in receivables in all customer classes except the government.

On the financial side, PUC suffered another net loss of $2.7 million in 2009; however, in comparison to last year's loss of $7.3 million, this was not as exorbitant. A recent tariff study was undertaken to update PUC's tariff to reflect current trends in PUC's customer base power consumption as well as PUC's strategic shift to renewable energy. The tariff will be designed to ensure full recovery of operational and capital replacement costs.

The following are highlights for the year:

- PUC's total assets of $42.1 million decreased by $13.2 million from the prior year.

- PUC's net utility plant, stated at $25.5 million, decreased from prior year by $0.4 million.

- At fiscal year end, PUC reported net assets at $28.9 million, of which $7.9 million, or 27%, represented unrestricted net assets. Net reduction in net assets from the current year's net loss was $2.7 million, as compared to prior year's $7.3 million.

- During the fiscal year, operating revenues aggregated to $20.5 million, 16% less than the previous year's revenues. This is attributed to lower revenue rates (fuel charge) to commensurate with the decline in diesel fuel prices.

- Operating expenses encroached $23 million with fuel cost comprising 66% while last year topped $28 million, of which 77% was fuel cost's egregious portion. The global fuel market last year experienced phenomenal spikes which drove the diesel fuel price over $180 per barrel (bbl). Just as dramatic, the fuel market collapsed this year and the fuel price appears to have settled at around $80/bbl.

- PUC invested materially in the repairs of its electric plant assets with $3.3 million, a 61% increase over last year's $2.1 million. Other operating expenses remained constant.

- PUC's investments performed better this year, yielding net revenue of $397K, a significant recovery from last year's loss of $556K.

REQUIRED FINANCIAL STATEMENTS

PUC's basic financial statements aim to present the financial condition of the Company and the results of its operations on a fiscal year basis. These are comprised of the following:

The ***Statement of Net Assets*** presents all PUC assets, liabilities, and net assets (difference between assets and liabilities). This provides information about the nature of investments in resources (assets) and obligations of PUC to creditors (liabilities). It also provides the bases for assessing liquidity, leverage, and financial flexibility of PUC. Because of the critical role of plant assets to PUC's operations, plant assets are presented first showing original costs, accumulated depreciation, and net value. For the same reason, net assets is presented first under the *Liabilities and Net Assets* section. Net assets are subdivided into net assets invested in capital assets, net of related debt, and unrestricted net assets.

All of the current year's revenues and expenses are accounted for in the ***Statement of Revenues, Expenses and Changes in Net Assets***. This statement measures the net results of operations (income or loss) during the current fiscal year by presenting major sources of income (operating revenues), major expenses (operating expenses), and nonoperating incidental revenues and expenses. External contributions towards plant expansions, if any, are presented after nonoperating revenues (expenses) as *capital contributions*. The statement is useful for reviewing PUC's financial performance compared to the prior year, and helps to determine PUC's credit worthiness.

Finally, the ***Statement of Cash Flows*** provides information about cash activities during the reporting period. This statement reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from operations, investing activities, and non-capital and capital and related financing activities. Cash and cash equivalents are defined as cash on hand, cash in checking and savings accounts, and time certificates of deposits maturing within three months of issuance.

Notes to the Financial Statements are an integral part of the PUC financial statements. They provide essential information necessary for a fuller understanding of the accounts presented in the basic financial statements. The notes elaborate on off-balance sheet credit risks, commitments, and contingencies not evident on the face of the basic financial statements, as well as identify significant events occurring beyond the scope of the financial statements but which have potential material impact on the reported year's financial picture.

FINANCIAL ANALYSIS OF PUC AS A WHOLE

The following analysis focuses on PUC's net assets (Table 1) and changes in net assets (Table 2) during the year. Our analysis aims to determine whether PUC's financial condition improved or deteriorated as a result of this year's operations, and the underlying reasons for such changes.

Table 1

NET ASSETS
(Dollars in Thousands)

	Sept 30, 2009	Sept 30, 2008	Sept 30, 2007	Inc (Dec) 2009 to 2008	Inc (Dec) 2008 to 2007
Current assets	$ 14,672	$ 24,944	$ 15,253	$ (10,272)	$ 9,691
Other Assets	1,889	4,422	6,587	(2,533)	(2,165)
Net Utility Plant	25,547	25,990	27,598	(443)	(1,608)
Total Assets	42,108	55,356	49,438	(13,248)	5,918
Current Liabilities	6,555	16,585	3,540	(10,030)	13,045
Other Liabilities	6,616	7,134	7,016	(518)	118
Total Liabilities	13,171	23,719	10,556	(10,548)	13,163
Invested in Capital Assets	21,000	23,468	26,918	(2,468)	(3,450)
Unrestricted	7,937	8,169	11,964	(232)	(3,795)
Total Net Assets	$ 28,937	$ 31,637	$ 38,882	$ (2,700)	$ (7,245)

Decrease in current assets is accounted for primarily by a decrease in fuel stock at Aimeliik (427K gallons at the end of FY2009 compared to prior year's 1.8 million gallons). Prior year was an anomalous stock of fuel because of the shipment (receipt) of 37K bbl of fuel towards year-end. Additionally, PUC invested in the rehabilitation and repairs of its generators this year resulting in decreases to investment and cash assets. Finally, the subsidy program from the national government initiated in September 2008 for low-consumption residential and commercial customers ended in July 2009. Of the $3 million subsidy funds received, $676K was credited to qualifying customers accounts as ROP subsidy, $946K was refunded back to the National Government and the remaining $1.4 million was applied against overdue government accounts.

The bulk of "Other Assets" is the remainder of the proceeds from the $7M loan acquired early in FY2007. Portions of the proceeds have been spent each year to finance repairs and rehabilitation work and the acquisition of two mobile generators with a combined 4MW capacity.

Net movement in utility plant assets is a combination of acquisitions and depreciation expense. Utility plant assets increased this year with rehabilitation of two generator units in Aimeliik and replacement of the radiator for the Mitsubishi generators in Malakal, a combined total cost of $2.4 million. The net effect after depreciation is a decrease to net plant assets of $443K. Table 4 below (*Capital Assets and Depreciation*) provides a more detailed analysis of plant assets.

Prior year payables spiked with the following obligations: bulk fuel inventory stock at Aimeliik ($6.5 million), the energy cost subsidy discussed above ($2.5 million), and other fuel-related debt ($3.5 million). Most of these, with the exception of $2.7 million of fuel-related debt, were discharged or retired this year.

Changes in PUC's net assets serve as indicators of its financial health. To fully evaluate PUC's financial health, consideration should be made of other non-financial factors such as changes in economic conditions, management long-term strategy, community demographics, and legislative mandates. Details of changes to PUC's net assets are discussed in our review of the following condensed schedule *Changes in Net Assets* (Table 2).

Table 2
CHANGES IN NET ASSETS
(Dollars in Thousands)

	FY2009	FY2008	FY2007	Change 2009 to 2008	Change 2008 to 2007
Operating Revenues:					
Electric	$ 20,010	$ 24,123	$ 19,709	$ (4,113)	$ 4,414
Others	463	317	308	146	9
Provision for bad debt	(511)	(338)	(296)	(173)	(42)
Nonoperating Revenue (Exp)	304	(3,208)	(36)	3,512	(3,172)
Total Revenue	20,266	20,894	19,685	(628)	1,209
Operating Expenses:					
Generation fuel	15,185	21,758	16,182	(6,573)	5,576
Depreciation	2,538	2,400	2,471	138	(71)
Generation other costs	3,343	2,076	2,029	1,267	47
Admin	921	944	940	(23)	4
D&T	828	847	787	(19)	60
Engineering	151	114	118	37	(4)
Total Operating Expenses	22,966	28,139	22,527	(5,173)	5,612
Change in Net Assets	(2,700)	(7,245)	(2,842)	4,545	(4,403)
Beginning NA	31,637	38,882	41,724	(7,245)	(2,842)
Ending NA	$ 28,937	$ 31,637	$ 38,882	$ (2,700)	$ (7,245)

Revenues

Operating revenues-electric is comprised of kilowatt-hour (kWh) sales and monthly fixed charges. Monthly fixed charges are designed to recover PUC's monthly fixed costs of providing service to customers regardless of load demand or energy consumption. Operating revenues-others comprises of miscellaneous sales, new hookup fees, and late charges. Operating revenues rose last year by 22% and dropped this year by 17% directly related to the rise and fall of fuel cost. PUC adopted a new tariff schedule last year effective July 2008 designed to respond efficiently to fuel cost fluctuations. The tariff allowed for monthly adjustment of rates to compensate for fuel cost.

The public's reaction to the fuel price last year has leveled out this year with average monthly kWh sales at 16% below last year's average sales. This is a contrast to customer growth of 2%, primarily in the prepaid metering category. The popularity of the prepaid metering program is the ability to monitor and control electric consumption. Thus, despite the growth in customer numbers, actual kWh sales dropped as customers' conservation consciousness heightened.

PUC suffered major reversals last year in the "Non-operating Revenues (Expenses)" category, with a net reduction in last year's net result of a $3.2 million net expense. This result came from poor investment performance ($556K), write-downs of two large receivables ($858K from a defunct local bank and $135K from a former contractor), and recognition of a $1.7 million adjudicated settlement to a fuel supplier. PUC fared better this year with investment growth of $397K and grant assistance of $206K to underwrite the new billing and accounting systems and a plant performance audit. Interest expense is consistent at roughly around $300K for both years.

Expenditures

The significant contributor to operating expenses each year is fuel comprising 66% of total operating costs this year, compared to 77% and 72% in the preceding two years. The decrease this year is attributed to (1) declining fuel price (this year's average price is only 77% of prior year's average price), and (2) general energy conservation which has led to lower energy demand and its consequential impact on fuel consumption (1 million gallons lower than two years ago).

Other operating costs remained consistent over the years except for "generation - other costs." The reduction on cash requirements attendant to deflated fuel cost allowed management to renew its thrust in repairing and overhauling its aged generators, resulting in the increase to generation - other costs.

Last year's increase in Transmission & Distribution division is ascribed directly to new growth in the prepaid metering program which commenced toward the end of FY2008.

For three consecutive years, PUC has suffered significant net losses of $2.7 million, $7.2 million, and $2.8 million, respectively, which have reduced net assets down to $28.9 million at the end of FY2009. Management is proactively exploring plans to strengthen operations and ensure reliability of services. New initiatives in exploration of alternative renewable energy and ongoing tariff improvements give optimism about PUC's viability and delivery of services.

Table 3
CASH FLOWS
(Dollars in Thousands)

	FY2009	FY2008	FY2007	Change 2009 to 2008	Change 2008 to 2007
Cash flows from operating activities	$ (6,005)	$ (470)	$ 156	$ (5,535)	$ (626)
Cash flows from investing activities	4,312	(717)	1	5,029	(718)
Cash flows from non-capital financing activities	970	4,320	(4,295)	(3,350)	8,615
Cash flows from capital and related financing activities	(2,504)	(1,009)	5,460	(1,495)	(6,469)
Net change in cash and cash equivalents	(3,227)	2,124	1,322	(5,351)	802
Cash and cash equivalents at beginning of year	4,678	2,554	1,232	2,124	1,322
Cash and cash equivalents at end of year	$ 1,451	$ 4,678	$ 2,554	$ (3,727)	$ 2,124

Cash flows from operating activities reflect the net effect PUC's regular business activities have on cash and cash equivalents. This year's significant cash outlay is attributed primarily to the discharge of prior year payables. This year's operating expenses actually decreased with the decline in fuel cost as discussed in the appropriate section above. PUC divested some of its investment this year ($4.3 million) and borrowed additional net borrowings of $970K to finance operational cash outflow requirements. Major capital acquisitions for the year comprising of rehabilitation costs of two baseload generators, new radiators, and capital-related interest expense make up the cash outflow requirement of capital and related financing activities.

The significant cash flow influx from prior year came from a $3 million national government subsidy to subsidize electric costs of qualifying residential and commercial customers and from short-term borrowings. The short-term borrowings helped finance prior year net operating cash flow deficit of $470K, which was attributed to abnormally high fuel costs driven by an aberrant global fuel market. PUC's fuel cost recovery mechanism was revised towards the end of the year as a countermeasure. Additionally, PUC acquired additional securities investments and additions to its utility plant asset, resulting a net cash inflow of $2.1 million for the year.

FY2007 net cash inflow of $1.3 million was the flow-out of a material loan net of repayment of short-term loans. A loan of $7 million was acquired that year to finance repairs of generators and acquisitions (new or used generator units). In the same year, some investment was liquidated to retire maturing short-term debt.

Please see note 7 to the financial statements for additional information regarding PUC's financing activities.

Capital Assets

Investment in capital assets has been minimal for the last three years due to tight cash flows. At the end of FY 2007, PUC had invested in a broad range of utility capital assets, including its power generation plants, electric transmission and distribution, and general support and administrative equipment, a cumulative $49.8 million. PUC's investment in capital assets increased to $50.5 million at the end of FY2008 and further increased to $52.6 million by end of FY2009. Net value after depreciation was $25.5 million, $26.0 million, and $27.6 million for FYs 2009, 2008, and 2007, respectively.

The following table summarizes PUC's capital assets by category and accumulated depreciation, and the changes therein for the years ended September 30, 2009, 2008, and 2007, respectively.

Table 4
CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
(Dollars in Thousands)

CAPITAL ASSETS:	Sept 30, 2009	Sept 30, 2008	Sept 30, 2007	Increase (Decrease) 2009 to 2008	Increase (Decrease) 2008 to 2007
Electric Plants:					
Electric Plants, Koror/Aimeliik	$ 26,757	$ 24,365	$ 22,969	$ 2,392	$ 1,396
Electric Plants, Outlying States	2,378	2,378	2,378	-	-
Total Electric Plants	29,135	26,743	25,347	2,392	1,396
Accumulated Depreciation	(16,733)	(15,019)	(13,463)	(1,714)	(1,556)
Net Electric Plant	12,402	11,724	11,884	678	(160)

Transmission & Distribution System:					
T&D System, Koror/Aimeliik	17,197	17,197	17,182	-	15
T&D System, Outlying States	2,090	2,090	2,090	-	-
Total T&D System	19,287	19,287	19,272	-	15
Accumulated Depreciation	(7,674)	(7,094)	(6,516)	(580)	(578)
Net T&D System	11,613	12,193	12,756	(580)	(563)
Administrative Equipment:					
Buildings	909	909	894	-	15
Heavy Equipment & Vehicles	1,521	1,515	1,555	6	(40)
Tools & Maintenance Equipment	936	771	787	165	(16)
Computers & Office Equipment	622	617	590	5	27
Total Admin Equipment	3,988	3,812	3,826	176	(14)
Accumulated Depreciation	(2,614)	(2,378)	(2,246)	(236)	(132)
Net Administrative Equipment	1,374	1,434	1,580	(60)	(146)
Capital Improvement Projects:					
Mobile CAT Generators	-	-	1,378	-	(1,378)
Pielstick Engine 3 Rehabilitation	-	639	-	(639)	639
Accounting & Billing Systems	158	-	-	158	-
Total Capital Projects in Progress	158	639	1,378	(481)	(739)
TOTAL CAPITAL ASSETS	$ 25,547	$ 25,990	$ 27,598	$ (443)	$ (1,608)

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

FY2007:	PDD Mechanic Shop	$ 103,551
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

Ongoing Capital Improvement Project at the end of FY2009 was:

New Accounting and Billing Systems $ 158,087

In 2007, PUC acquired a $7 million loan to finance a new 5MW generator to supplement the aging 25MW plant. Negotiations revealed the cost of a brand new generator far exceeded the cash capability of PUC. Accordingly, the loan was used to finance the purchase of small mobile generators and rehabilitate and repair existing engines. At September 30, 2009, $2.5 million remains of the loan proceeds.

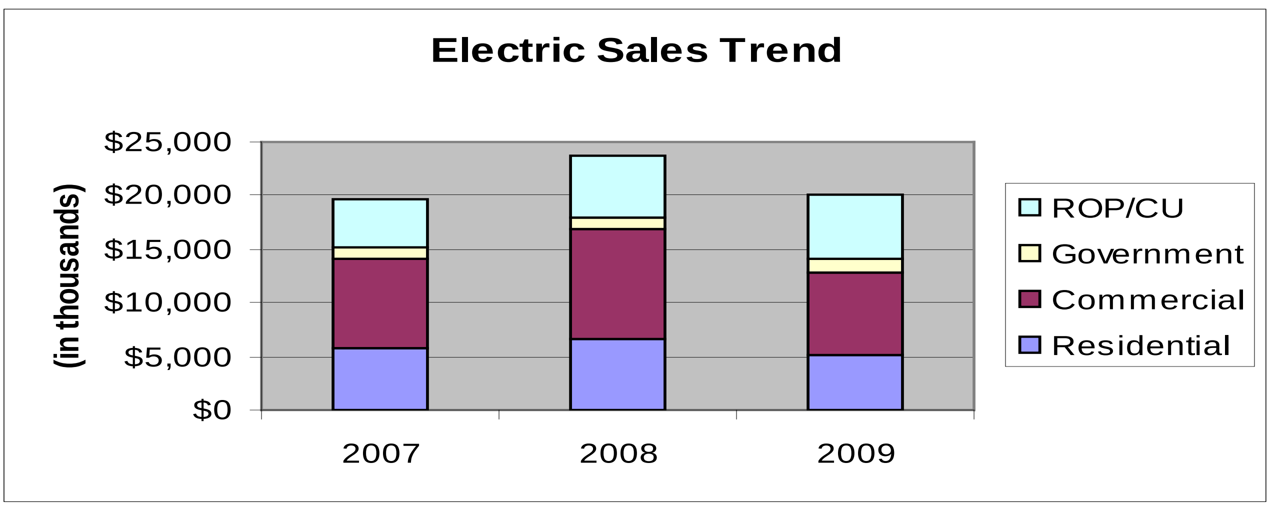
A Five-Year Strategic Plan, adopted by the Board of Directors of PUC on October 30, 2003 provided guidance for the replacement and upgrade of the existing infrastructure up to last fiscal year. In FY2008, a long-term master plan study was undertaken to assist PUC in managing its infrastructure to meet power demand up to year 2025. The plan detailed major capital improvements to PUC's power generating plants and transmission and distribution systems in tandem with projected growth demand. Part of the plan to install 10MW of diesel generators by year 2013 or 2014 has been adopted, which is contingent on release of financing. PUC has shifted focus from diesel generation to alternative renewable energy. A formal plan has yet to be formulated to provide concrete and measurable milestones in this regard.

Please see note 6 to the financial statements for additional information regarding PUC's capital assets.

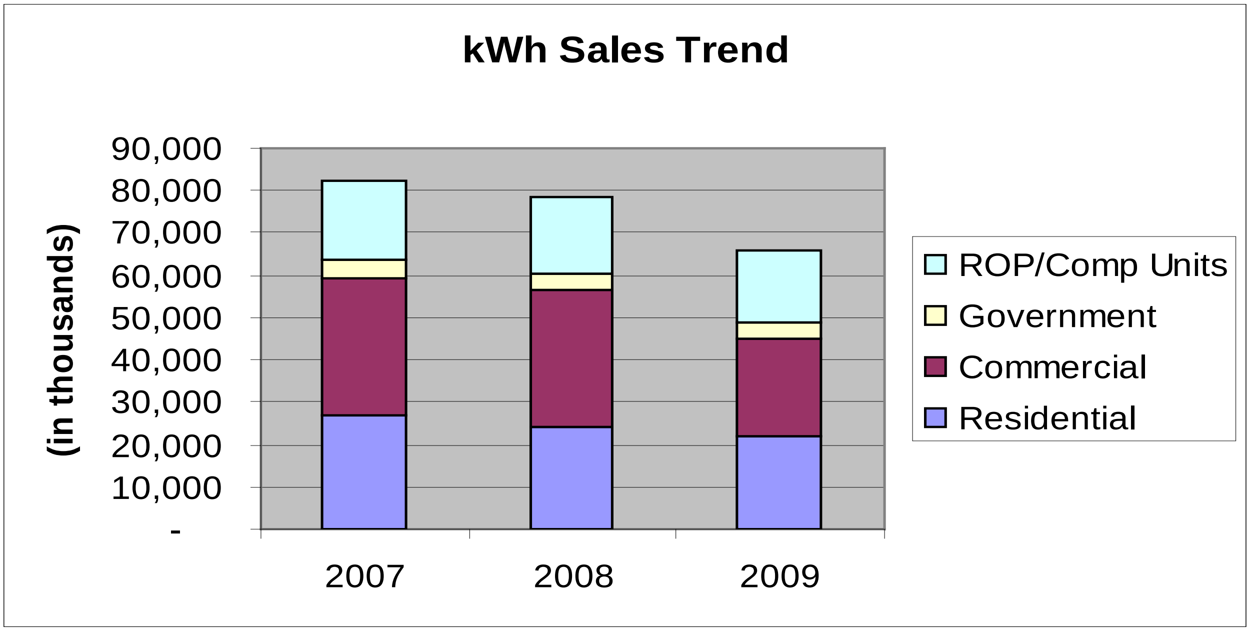
ECONOMIC FACTORS

Sales

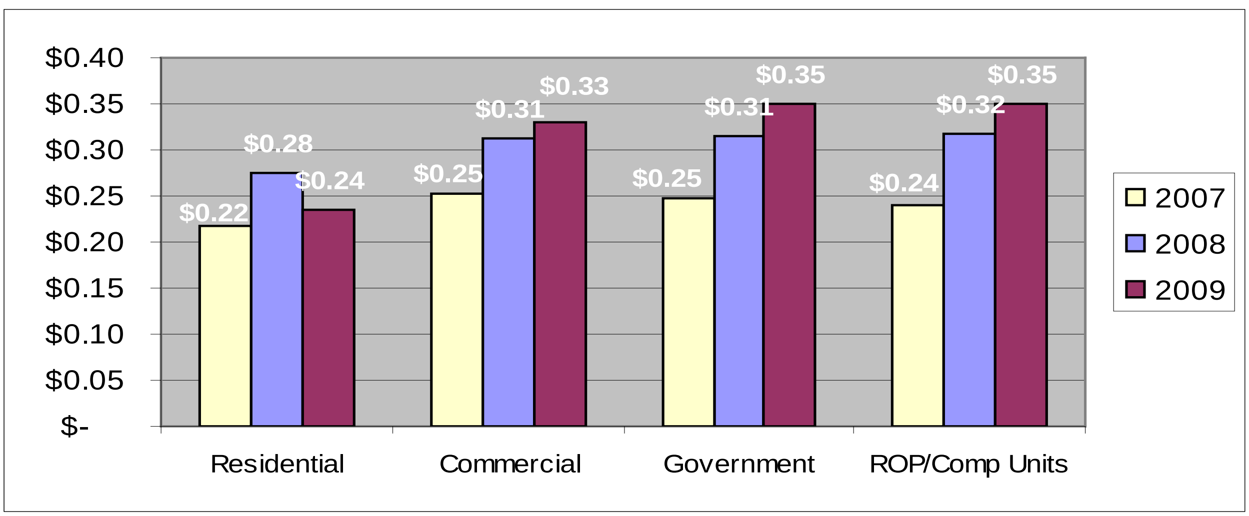
Electric sales for the two years prior had shown growth trend ranging from 13%-20%. This was due primarily to rate increases triggered by rising fuel price. Sales in kWh units actually show a decline in the last three years. It is presumed that stagnant or sluggish personal income growth of the general public and escalating cost of living have contributed to the declining sales trend. The charts below illustrate the trend of operations by comparing annual electric sales, kWh sales, and rates per kWh over the last three years.



Overall gross sales grew by 13% in 2007, 22% in 2008, and dropped by 16% in 2009 in tandem with fuel price fluctuation and public energy conservation efforts.



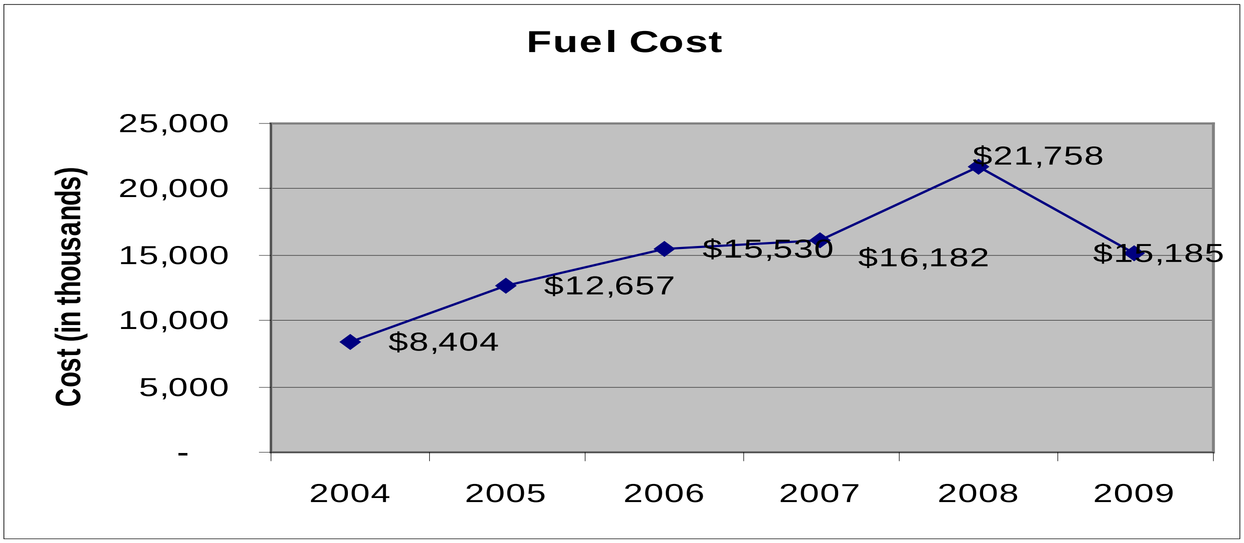
Overall kWh unit sales dropped by 1% in 2007, 5% in 2008, and 16% in 2009. The significant drops in 2008 and 2009 were driven by the new tariff schedule implemented during the last quarter of last year, which spiked electric rates to commensurate with fuel cost.



Electric rates have steadily increased over the last three years in response to rising fuel cost. The revised tariff schedule adopted in the latter part of last year 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 market fuel price. Fuel cost trend of the prior six years averaged an annual increase of 35%. This dramatically changed in 2009 with an averaged market price drop of 23%.

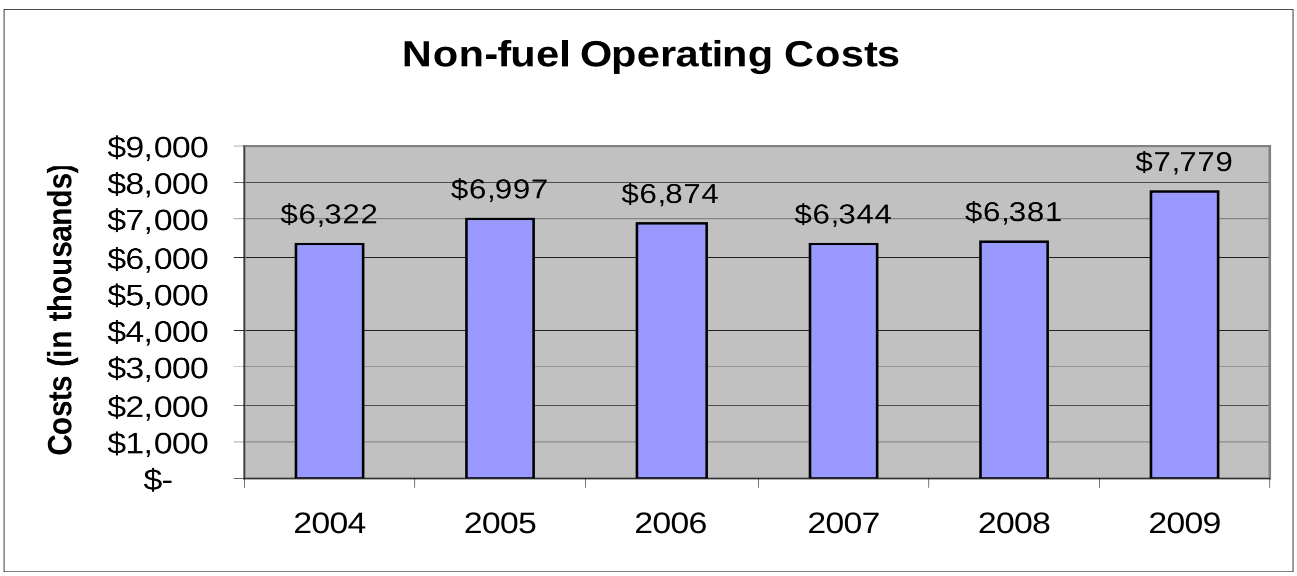
Expenses

Fuel cost now comprises 66% of PUC's operating costs. The trend over the prior years had been mounting as shown in the following chart.



The recent shift in price direction is hoped to level out thus providing some reprieve to PUC customers.

Other operating costs, on the other hand, have remained relatively steady as shown below, with the exception of "Generation - Other Costs" which increased by 61% this year as a result of major repairs undertaken to correct PUC's declining power systems.



FUTURE OUTLOOK

PUC is by no means out of its financial and operational dilemmas, however, there are optimistic harbingers of better days to come. Levelized fuel cost has eased operational stress. Management shift from diesel generation to alternative "green" energy may lead to greater savings and a positive boost to Palau's economy. PUC is looking to develop plans with concrete milestones for achieving this goal. With global warming issues, this approach has the support of the local government and the international community.

PUC will continue with ongoing repairs and possible further rehabilitation work as conditions of current generators necessitate. Such improvements are expected to yield reliable and sufficient power supply to meet the nation's load demand until the strategic plan is put in motion.

A recent review of PUC's tariff should make it dynamic so that it responds effectively to emerging trends. The tariff review factored in PUC's evolving master plan, which included infrastructure plans and altered economic conditions, such as customer preferences and power demand forecast.

CONTACTING PUC'S FINANCIAL MANAGEMENT

Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in the audit report of PUC's financial statements, which is dated August 3, 2009. That report can be obtained by contacting the PUC Accounting Department as set forth below.

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 jacquia@PUC.com or call 488-5320.

PUBLIC UTILITIES CORPORATION

Statements of Net Assets
September 30, 2009 and 2008

ASSETS	2009	2008
Utility plant:		
Electric plant	$ 29,135,444	$ 26,742,711
General support equipment	22,708,297	22,532,598
Administrative equipment	565,573	566,499
Utility plant in service	52,409,314	49,841,808
Accumulated depreciation	(27,020,545)	(24,491,283)
Net utility plant in service	25,388,769	25,350,525
Construction in progress	158,087	639,416
Net utility plant	25,546,856	25,989,941
Current assets:		
Cash and cash equivalents	1,451,410	4,677,907
Restricted cash	764,130	256,053
Time certificates of deposit	-	627,459
Investments	4,814,319	6,050,070
Receivables:		
Trade	2,228,780	2,998,804
Affiliate	2,681,435	1,385,443
Interest	-	19,905
Other	67,801	17,259
	4,978,016	4,421,411
Less allowance for doubtful accounts	(1,446,000)	(940,792)
Total receivables, net	3,532,016	3,480,619
Prepaid expenses	127,106	64,006
Inventory, net	3,954,091	9,726,769
Due from grantor agency	29,390	61,390
Total current assets	14,672,462	24,944,273
Other non-current assets:		
Restricted investments	1,689,038	4,221,907
Receivable from a local bank, net	200,000	200,000
Total other assets	1,889,038	4,421,907
	$ 42,108,356	$ 55,356,121
LIABILITIES AND NET ASSETS		
Net assets:		
Invested in capital assets, net of related debt	$ 21,000,024	$ 23,467,901
Unrestricted	7,937,200	8,168,820
Total net assets	28,937,224	31,636,721
Commitments and contingencies		
Current liabilities:		
Short-term borrowings	2,667,132	1,041,065
Current portion of long-term debt	400,000	45,624
Accounts payable	2,514,465	10,468,177
Accrued expenses	328,801	296,020
Capital lease liability	113,033	-
Unearned revenue	3,023	2,554,729
Customer deposits	528,531	501,536
Payable to a fuel contractor	-	1,678,240
Total current liabilities	6,554,985	16,585,391
Long-term debt	6,600,000	7,117,862
Other liabilities	16,147	16,147
Total liabilities	13,171,132	23,719,400
	$ 42,108,356	$ 55,356,121

See accompanying notes to financial statements.

PUBLIC UTILITIES CORPORATION

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008
Operating revenues:		
Power	$ 20,009,695	$ 24,122,998
Other	462,937	317,081
Total operating revenues	20,472,632	24,440,079
Less provision for uncollectible receivables	(510,950)	(337,656)
Net operating revenues	19,961,682	24,102,423
Operating expenses:		
Generation - fuel	15,185,395	21,757,913
Generation - other cost	3,342,742	2,076,333
Depreciation	2,537,663	2,400,039
Administration	920,602	943,709
Distribution and transmission	827,814	846,652
Engineering services	150,566	114,723
Total operating expenses	22,964,782	28,139,369
Operating loss	(3,003,100)	(4,036,946)
Nonoperating revenues (expenses):		
Net increase (decrease) in fair value of investments	396,731	(556,109)
Grant revenues	206,019	280,841
Interest income	24,159	20,905
Gain (loss) on disposal of assets	2,189	(1,293)
Interest expense	(309,114)	(281,283)
Writedown of receivable from a local bank	-	(858,378)
Writedown of receivable from a contractor	-	(134,794)
Claims and litigation	-	(1,678,240)
Other	(16,381)	2
Total nonoperating revenues (expenses), net	303,603	(3,208,349)
Change in net assets	(2,699,497)	(7,245,295)
Net assets at beginning of year	31,636,721	38,882,016
Net assets at end of year	$ 28,937,224	$ 31,636,721

See accompanying notes to financial statements.

PUBLIC UTILITIES CORPORATION

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	$ 18,311,656	$ 22,724,273
Cash payments to suppliers for goods and services	(22,445,353)	(21,382,435)
Cash payments to employees for services	(1,871,359)	(1,812,087)
Net cash used for operating activities	(6,005,056)	(470,249)
Cash flows from investing activities:		
Net change in time certificates of deposit	627,459	9,335
Interest received on time certificates of deposit	44,064	17,078
Proceeds from sale and maturities of investment securities	4,239,381	5,136,577
Interest and dividends on investments	220,976	299,098
Other non-operating	(16,381)	(148,029)
Net change in restricted cash	(508,077)	(256,053)
Purchase of investment securities	(295,007)	(5,775,490)
Net cash provided by (used for) investing activities	4,312,415	(717,484)
Cash flows from non-capital financing activities:		
Proceeds from short-term borrowings	2,476,067	3,137,824
Cash received from grantor agencies	238,019	287,991
Obligation under a capital lease	113,033	-
Proceeds from issuance of long-term debt	-	182,496
Cash (returned) received from fuel subsidy	(945,987)	3,000,000
Principal payment on short-term borrowings	(850,000)	(2,279,255)
Interest paid on short-term borrowings	(60,711)	(8,891)
Net cash provided by non-capital financing activities	970,421	4,320,165
Cash flows from capital and related financing activities:		
Principal payment on long-term debt	(163,486)	(19,010)
Interest paid on long-term debt	(248,403)	(196,850)
Acquisition of utility plant	(2,092,388)	(792,949)
Net cash used for capital and related financing activities	(2,504,277)	(1,008,809)
Net change in cash and cash equivalents	(3,226,497)	2,123,623
Cash and cash equivalents at beginning of year	4,677,907	2,554,284
Cash and cash equivalents at end of year	$ 1,451,410	$ 4,677,907
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (3,003,100)	$ (4,036,946)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	3,342,742	2,076,333
Provision for uncollectible receivables	510,950	337,656
(Increase) decrease in assets:		
Receivables:		
Trade	538,464	(1,243,035)
Affiliate	(2,675,893)	(518,704)
Vendors	-	372,099
Other	(50,542)	(4,179)
Prepaid expenses	(63,100)	126,907
Inventory	5,772,678	(5,864,872)
Increase (decrease) in liabilities:		
Accounts payable	(7,953,712)	7,893,347
Accrued expenses	32,781	17,352
Customer deposits	26,995	50,112
Payable to a fuel contractor	(1,678,240)	-
Other liabilities	-	(25)
Net cash used for operating activities	$ (5,199,977)	$ (793,955)

See accompanying notes to financial statements.

Statements of Cash Flows, Continued
Years Ended September 30, 2009 and 2008

Non-cash transactions:

PUC recorded a net increase (decrease) in fair value of investments of $396,731 and $(556,109) for the years ended September 30, 2009 and 2008, respectively.

PUC applied $1,612,390 and $445,271 of fuel subsidy received against receivables as of September 30, 2009 and 2008, respectively.

PUC offset the lapsed funding of $128,232 against the Republic of Palau's outstanding receivable balance at September 30, 2008.

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.

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.

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.

(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, 2009 and 2008, $22,831 and $17,823, respectively, of eligible interest was capitalized.

New Accounting Standards

During fiscal year 2009, PUC implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued 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. The provisions of this statement are effective for periods beginning after June 15, 2009. The effect of this statement on PUC's financial statements, if any, has not been evaluated.

In June 2008, GASB issued 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. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PUC.

In December 2008, GASB issued 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. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PUC.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 does not believe that the implementation of this statement will have a material effect 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, 2009 and 2008 were $1,078,333 and $1,533,991, respectively.

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 $178,958, $168,197 and $164,789 to the Fund during the fiscal years 2009, 2008 and 2007, respectively.

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 2009 and 2008 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) an assumption that members retire at the earlier of age 60 or upon attaining 30 years of service.

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, 2007 actuarial valuation determined the unfunded pension benefit obligation as follows:

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

Participants in pay status	$ 48,968,000
Active participants	46,002,000
Participants with vested deferred benefits	903,000
Total pension benefit obligation	95,873,000
Net assets available for benefits, at market value	48,358,000
Unfunded benefit obligation	$ 47,515,000

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.

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.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to correspond with the 2009 presentation.

(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:

(3) Deposits and Investments, Continued

Deposits, Continued

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.

As of September 30, 2009 and 2008, cash and cash equivalents and time certificates of deposit were $2,215,540 and $5,561,419, respectively, and the corresponding bank balances were $5,498,059 and $5,676,492, respectively. Of these amounts, $3,706,527 and $5,476,492, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits in the amount of $351,239 and $200,000, 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.

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.

(3) Deposits and Investments, Continued

Investments, Continued

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.

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.

(3) Deposits and Investments, Continued

Investments, Continued

Fixed Income, Continued:

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 Investment Committee review. The Investment Committee 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, the Investment Committee will immediately notify the Board so that appropriate action can be determined and taken.

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, 2009 and 2008, PUC's investments are held and administered by investment managers subject to Securities Investor Protection Corporation insurance in accordance with PUC's investment policy.

(3) Deposits and Investments, Continued

Investments, Continued

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 and 2008, investments at fair value are as follows:

	2009	2008
Fixed income securities	$ 3,771,071	$ 3,521,855
Other investments:		
Domestic equities	2,732,286	2,528,215
Others	-	4,221,907
	2,732,286	6,750,122
	$ 6,503,357	$ 10,271,977

PUC's restricted investments as of September 30, 2009 and 2008 amounting to $1,689,038 and $4,221,907, respectively, represent the unspent portion of proceeds from PUC's loan with a foreign bank (see Note 7).

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

		Investment Maturities (in years)				
Investment Type	Fair Value	Less than 1 year	1 - 5	6-10	More than 10	Rating
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	

(3) Deposits and Investments, Continued

Investments, Continued

As of September 30, 2008, PUC's fixed income securities had the following maturities:

Investment Type	Fair Value	Investment Maturities (in years) Less than 1 year	1 - 5	6-10	More than 10	Rating
U.S. Treasury Notes and Bonds	$ 1,283,733	$ 195,030	$ 616,726	$ 323,106	$ 148,871	AAA
Municipal Bonds	42,326	-	-	42,326	-	AAA
Municipal Bonds	86,121	-	86,121	-	-	AA
Mortgage and Asset Back Securities	802,520	-	87,192	68,844	646,484	AAA
Corporate Bonds	116,752	-	47,893	38,636	30,223	AAA
Corporate Bonds	36,769	-	36,769	-	-	AA+
Corporate Bonds	73,902	-	73,902	-	-	AA-
Corporate Bonds	72,766	-	37,112	-	35,654	AA
Corporate Bonds	67,957	-	67,957	-	-	A+
Corporate Bonds	178,787	-	108,059	70,728	-	A
Corporate Bonds	90,702	-	23,833	-	66,869	A-
Corporate Bonds	310,856	-	-	175,078	135,778	BBB+
Corporate Bonds	57,777	-	57,777	-	-	BBB
Corporate Bonds	99,313	-	-	32,116	67,197	BBB-
International Bonds	37,290	-	-	-	37,290	AA-
International Bonds	127,846	-	74,939	-	52,907	A-
International Bonds	36,438	-	-	36,438	-	BBB+
	$ 3,521,855	$ 195,030	$ 1,318,280	$ 787,272	$ 1,221,273	

Receivable from a Local Bank:

At September 30, 2009 and 2008, 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, 2009 and 2008 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, 2009 and 2008, are as follows:

	2009	2008
Balance at beginning of year	$ 61,390	$ 68,540
Deductions - cash receipts from grantor agencies	(238,019)	(287,991)
Additions - program outlays	206,019	280,841
Balance at end of year	$ 29,390	$ 61,390

(5) Inventory

Inventory at September 30, 2009 and 2008, consists of the following:

	2009	2008
Distribution and power plant supplies	$ 2,807,003	$ 3,087,600
Fuel	1,315,334	6,803,333
Lubricants	6,222	10,304
	4,128,559	9,901,237
Provision for slow moving inventory	(174,468)	(174,468)
	$ 3,954,091	$ 9,726,769

(6) Utility Plant and Construction in Progress

Utility plant and construction in progress consist of the following detailed balances at September 30, 2009 and 2008:

	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

	Estimated Useful Lives	Balance at October 1, 2007	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2008
Depreciable assets:					
Electric plant	3 - 25 years	$ 25,346,861	$ 1,405,850	$ (10,000)	$ 26,742,711
General support equipment	2 - 30 years	22,546,537	117,321	(131,260)	22,532,598
Administrative equipment	2 - 10 years	551,823	35,564	(20,888)	566,499
		48,445,221	1,558,735	(162,148)	49,841,808
Less accumulated depreciation		(22,224,923)	(2,400,039)	133,679	(24,491,283)
		26,220,298	(841,304)	(28,469)	25,350,525
Non-depreciable assets:					
Construction in progress		1,378,026	668,833	(1,407,443)	639,416
		$ 27,598,324	$ (172,471)	$ (1,435,912)	$ 25,989,941

(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 3.75% and 4.50% as of September 30, 2009 and 2008, respectively, and is collateralized with PUC's unrestricted investments of $4,814,319 and $6,050,070 as of September 30, 2009 and 2008, respectively.

PUC entered into a term loan on December 23, 2004 in the amount of $1,800,000 for the purpose of financing short-term working capital. On October 6, 2005 the loan was refinanced for an additional $600,000 for the purpose of financing property improvements of its new office building. The loan bears a simple interest at 2.95% per annum as of September 30, 2007. Principal is payable in quarterly $300,000 installments plus interest. The remaining loan balance was converted to a long-term loan in April 2008.

Movements in short-term borrowings for the years ended September 30, 2009 and 2008, are as follows:

	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

	Balance at October 1, 2007	Additions	Repayments	Balance at September 30, 2008
Term loan	$ 182,496	$ -	$ (182,496)	$ -
Portfolio credit line	-	3,137,824	(2,096,759)	1,041,065
	$ 182,496	$ 3,137,824	$ (2,279,255)	$ 1,041,065

Long-Term Debt

On September 4, 2006, PUC entered into a loan agreement 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 22, 2008, PUC entered into a promissory note with a commercial bank in the amount of $182,496 for the purpose of financing working capital, which bears interest at 3.5% as of September 30, 2008. The loan was to be repaid in forty-seven monthly installments until April 22, 2012 and was collateralized by time certificates of deposit valued at $656,094 as of September 30, 2008. The balance of the promissory note was fully repaid in December 2008.

(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
2010	$ 400,000	$ 240,547	$ 640,547
2011	400,000	226,353	626,353
2012	400,000	212,742	612,742
2013	400,000	197,964	597,964
2014	400,000	183,769	583,769
2015 - 2019	2,000,000	706,358	2,706,358
2020 - 2024	2,000,000	351,458	2,351,458
2025 - 2027	1,000,000	42,467	1,042,467
	$ 7,000,000	$ 2,161,658	$ 9,161,658

Movements in long-term liabilities for the years ended September 30, 2009 and 2008, are as follows:

	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

	Balance at October 1, 2007	Additions	Repayments	Balance at September 30, 2008	Balance Due in One Year
Long-term debt	$ 7,000,000	$ -	$ -	$ 7,000,000	$ -
Term loan	-	182,496	(19,010)	163,486	45,624
Other liabilities	16,172	-	(25)	16,147	-
	$ 7,016,172	$ 182,496	$ (19,035)	$ 7,179,633	$ 45,624

(8) Related Party Transactions

Receivables due from ROP amounted to $2,681,435 and $1,385,443 as of September 30, 2009 and 2008, respectively. PUC provides electrical utility services to ROP at the same rates charged to third parties.

Utility services rendered to ROP amounted to $5,705,974 and $5,725,011 for the years ended September 30, 2009 and 2008, respectively.

(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 shall be 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 shall remain in effect until the effective rate is 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 and 2008, the subsidy applied against electric receivable amounted to $232,489 and $445,271, respectively.

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 total amount of the subsidy grant applied to National Government accounts amounted to $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, 2009, the energy charge incurred by ROP amounted to $16,902.

(9) Commitments

PUC entered into an agreement on July 26, 2005 with the Airai State Public Lands Authority (ASPLA) to lease a lot to construct its office building. The lease is for an initial term of fifty years commencing on the date PUC occupies the premises following completion of the construction of its office building. Beginning on the third anniversary of the commencement of the lease term, PUC shall pay ASPLA $15,000 annually for a fifteen-year period. The fees for the remainder of the lease term will be negotiated after the eighteen-year period. Further, throughout the term of the lease, PUC shall provide ASPLA in-kind contributions up to a maximum of $6,000 annually. PUC has not commenced construction of its office building as of September 30, 2009.

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 any 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 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. As of September 30, 2009, PUC reimbursed $56,967 to the fuel contractor. The remaining unpaid balance due to the fuel contractor is presented as capital lease liability in the accompanying statement of net assets as of September 30, 2009.

(10) Contingencies

PUC entered into a commercial supply agreement beginning February 1, 2005 and ending on January 31, 2010 in which PUC will purchase production and vehicle fuel and lubricants from a single contractor at an estimated amount of seven hundred thousand gallons of fuel per month. Purchase prices are based on movements of base price for fuel and lubricants. The commercial supply agreement was terminated effective February 2008.

On July 28, 2008, PUC entered into an agreement with a contractor to settle the remaining liability related to the commercial supply agreement that was terminated in February 2008, as discussed in the preceding paragraph. The remaining unpaid balance related to the agreement as of September 30, 2008 is $666,667 and was fully settled in December 2008.

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 recognized a liability to the fuel contractor and an expense totaling $1,678,240 as of September 30, 2008. In September 2009, PUC fully settled the liability totaling $1,751,636.

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.

(10) Contingencies, Continued

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.