KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2005

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Kwajalein Atoll Joint Utilities Resources, Inc.:

We were engaged to audit the accompanying statement of net assets of the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), a component unit of the Republic of the Marshall Islands, as of September 30, 2005 and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of KAJUR's management.

Because of inadequacies in KAJUR's accounting records and internal control, we were unable to satisfy ourselves about the amounts at which receivables, plant and equipment, accounts payable, and accrued liabilities are recorded in the accompanying statement of net assets at September 30, 2005 and the amounts at which revenues and expenses are recorded for the year then ended.

We were unable to obtain written representations from management of KAJUR as required by auditing standards generally accepted in the United States of America.

Because of the significance of the matter discussed in the second paragraph above and because management did not provide us with written representations, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

KAJUR has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

As discussed in Note 10 to the financial statements, the beginning net assets within the accompanying financial statements have been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2009, on our consideration of KAJUR'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 engagement to perform an audit in accordance with *Government Auditing Standards* and should be considered in assessing the results of our engagement.

Deloitte + Touche LLP

June 25, 2009

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statement of Net Assets
September 30, 2005

ASSETS

Current assets:	
Cash	$ 4,032
Receivables:	
Utility	3,036,055
Affiliate	155,000
Employees	1,243
Other	160,181
	3,352,479
Less allowance for doubtful accounts	(2,992,292)
Total receivables, net	360,187
Inventories	156,124
Total current assets	520,343
Capital assets, net	5,793,902
	$ 6,314,245

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable - fuel	$ 461,396
Accounts payable - other	469,471
Social security taxes payable	603,524
Due to affiliates	166,697
Accrued liabilities	260,663
Deferred revenue	129,677
Total current liabilities	2,091,428
Accrued sick leave - long-term	34,151
	2,125,579
Contingencies	
Net assets:	
Invested in capital assets	5,793,902
Unrestricted	(1,605,236)
Total net assets	4,188,666
	$ 6,314,245

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2005

Operating revenues:	
Electric and service billings	$ 2,855,907
Water	504,815
Other	214,448
Total operating revenues	3,575,170
Less provision for doubtful accounts	(369,153)
Total net operating revenues	3,206,017
Operating expenses:	
Fuel and lubricants	2,789,278
Loss on impairment of fixed assets	782,964
Salaries, wages and benefits	714,485
Depreciation	699,812
Operations and maintenance	163,920
Travel and transportation	101,564
Contractual services	80,993
Communications	43,887
Rental	26,268
Supplies and materials	(185,241)
Miscellaneous	97,721
Total operating expenses	5,315,651
Operating loss	(2,109,634)
Nonoperating revenues (expenses):	
Operating subsidies	904,357
Loss on write-off of fixed assets	(723,738)
Total nonoperating revenues (expenses), net	180,619
Capital contributions	565,614
Change in net assets	(1,363,401)
Net assets at beginning of year, as restated	5,552,067
Net assets at end of year	$ 4,188,666

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statement of Cash Flows
Year Ended September 30, 2005

Cash flows from operating activities:	
Cash received from customers	$ 3,165,738
Cash payments to suppliers for goods and services	(2,969,017)
Cash payments to employees for services	(738,685)
Net cash used for operating activities	(541,964)
Cash flows from noncapital financing activities:	
Operating subsidies received from RepMar	749,357
Net change in bank overdraft	(24,872)
Net cash provided by noncapital financing activities	724,485
Cash flows from capital and related financing activities:	
Capital contributions received from RepMar	172,877
Acquisition and construction of capital assets	(351,366)
Net cash used for capital and related financing activities	(178,489)
Net change in cash	4,032
Cash at beginning of year	-
Cash at end of year	$ 4,032
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (2,109,634)
Adjustments to reconcile loss from operations to net cash used for operating activities:	
Depreciation	699,812
Provision for doubtful accounts	369,153
Loss on impairment of fixed assets	782,964
(Increase) decrease in assets:	
Receivables:	
Utility	(366,273)
Employees	705
Other	(19,881)
Inventories	(221,710)
Increase (decrease) in liabilities:	
Accounts payable	189,219
Payable to affiliates	186,504
Deferred revenue	(23,278)
Other current and accrued liabilities	(29,545)
Net cash used for operating activities	$ (541,964)

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statement of Cash Flows, Continued
Year Ended September 30, 2005

Non-cash investing, capital, and financing activities:

Capital contributions received from RepMar	$ 398,529
Acquisition and construction of capital assets	(398,529)
	$ -
Capital assets	$ 723,738
Loss on write off of fixed assets	(723,738)
	$ -

See accompanying notes to financial statements.

(1) Organization

The Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), a component unit of the Republic of the Marshall Islands, was incorporated under the laws of the Republic of the Marshall Islands (RepMar) on September 13, 1990, to generate and distribute utilities on the island of Ebeye. On October 19, 1990, the Board of Directors of the Kwajalein Atoll Development Authority (KADA) authorized the transfer of $14,075,046 in utility plant and equipment to KAJUR.

On October 28, 1999, RepMar and KADA awarded a twenty-four month management contract to the American Samoa Power Authority (ASPA) to assume operational control of KAJUR. The term of the contract was from November 2, 1999 to October 31, 2001 and conditions of the contract were included in the management contract between RepMar, KADA and ASPA. On November 9, 2001, the Cabinet of RepMar approved the extension of the management contract for an additional two years with the same conditions. On April 30, 2003, the ASPA management contract ended and three ASPA employees were retained by KAJUR on a contractual basis to continue the management and operations, however, there was no formal contract approved by the Cabinet of RepMar.

On May 2, 2006, the Cabinet of RepMar approved the transfer of all management responsibilities of KAJUR to the Board of Directors of the Marshalls Energy Company, Inc., a component unit of RepMar. On July 24, 2006, the Cabinet of RepMar approved the introduction of legislation to the Nitijela (RepMar's legislature) to repeal the enabling legislation that created KADA.

KAJUR's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of KAJUR conform to accounting principles generally accepted in the United States of America, 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. KAJUR has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

KAJUR considers utility and nonutility revenues and costs that are directly related to utility and nonutility operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modify certain other financial statement disclosure requirements.

(2) Summary of Significant Accounting Policies, Continued

To conform to the requirements of GASB Statement 34, retained earnings are presented in the following net asset categories:

- Invested in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash

Custodial credit risk is the risk that in the event of a bank failure, KAJUR'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. KAJUR does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash in checking accounts. As of September 30, 2005, the carrying amount of cash was $4,032 and the corresponding bank balance was $24,104. At September 30, 2005, substantially all of KAJUR's cash is with a non-federally insured bank.

Receivables

KAJUR provides electric services to government agencies, businesses and individuals located on the island of Ebeye and bills for these services on a monthly basis. 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 evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Receivables are not collateralized.

(2) Summary of Significant Accounting Policies, Continued

Inventories

Inventories of fuel and supplies are stated at the lower of cost (first-in, first-out) or market (net realizable value) at September 30, 2005. Bulk fuel inventories are held for power plant use. As of September 30, 2005, inventories consisted of materials and supplies, totaling $125,090, and bulk fuel, totaling $31,034.

Plant and Equipment

KAJUR does not have a formal capitalization policy for plant and equipment; however, items with a cost that equals or exceeds $500 are generally capitalized at the time of acquisition. Depreciation of plant and equipment is calculated on the straight-line method based on the estimated useful lives of the respective assets, which are as follows:

Plant and machinery	20 - 25 years
Distribution system	20 - 25 years
Water system	20 - 25 years
Other equipment	5 years

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross revenue tax of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, sales of electricity services by public utility companies are exempt from gross revenue tax. Accordingly, KAJUR is exempt from this tax relating to gross revenue from sales of electric services.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. The liability as of September 30, 2005 is $32,850 and is included within the statement of net assets as accrued liabilities. Sick pay benefits vest at 50% and are recorded as an expense and a liability as the benefits accrue to employees. The liability as of September 30, 2005 is $34,151 and is included within the statement of net assets as accrued liabilities.

New Accounting Standards

During fiscal year 2005, KAJUR implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), which 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, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when its service utility has declined significantly or unexpectedly. The provisions of this Statement are effective for periods beginning after December 15, 2004. Management does not believe that the implementation of this statement will have a material effect on the financial statements of KAJUR.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of KAJUR.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of KAJUR.

In June 2004, GASB issued 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. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of KAJUR.

In December 2004, GASB issued Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by cost-Sharing Employers*. GASB Technical Bulletin No. 2004-2 clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers. Management does not believe the implementation of this pronouncement will have a material effect on the financial statements of KAJUR.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits.* GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of KAJUR.

(3) Risk Management

KAJUR 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. KAJUR has elected not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, KAJUR believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. No losses as a result of these risks have occurred for the past three years.

(4) Capital Assets

Capital assets activity for the year ended September 30, 2005 was as follows:

	October 1, 2004	Additions	Retirements	September 30, 2005
Plant and machinery	$ 4,982,097	$ 1,808	$ (800,716)	$ 4,183,189
Distribution system	2,454,564	1,993	(554,111)	1,902,446
Water system	612,309	555,270	(136,564)	1,031,015
Other equipment	941,264	590,147	(129,187)	1,402,224
	8,990,234	1,149,218	(1,620,578)	8,518,874
Less accumulated depreciation	(3,508,531)	(699,812)	442,611	(3,765,732)
	5,481,703	449,406	(1,177,967)	4,753,142
Construction work-in-progress	1,768,818	683,504	(1,411,562)	1,040,760
	$ 7,250,521	$ 1,132,910	$ (2,589,529)	$ 5,793,902

At September 30, 2005, management of KAJUR determined that certain capital assets in the amount of $1,042,349, net of $318,611 in accumulated depreciation, no longer existed. Accordingly, these capital assets were written off resulting in a loss of $723,738 for the year ended September 30, 2005.

During the year ended September 30, 2005, KAJUR recognized an impairment loss of $782,964 related to generator sets and reverse osmosis units that have become impaired due to unexpected obsolescence.

(5) Social Security Taxes Payable

At September 30, 2005, KAJUR was liable for taxes, including certain delinquent taxes payable to the Marshall Islands Social Security Administration (MISSA) in the amount of $603,524. On October 12, 2007, KAJUR and MISSA entered into a promissory note agreement for the delinquent taxes. The terms of this agreement include monthly payments of $8,000, inclusive of interest at 12% per annum, commencing October 31, 2007. For the year ended September 30, 2005, KAJUR incurred penalties and interest relating to these delinquent taxes of $6,887.

During the year ended September 30, 2005, employer contributions incurred by KAJUR for MISSA taxes amounted to $70,664.

(6) Related Party Transactions

KAJUR is a component unit of KADA, which was established pursuant to Public Law 989-36, the Kwajalein Atoll Development Authority Act of 1989. KADA is operated by a Board of Directors, the members of which are appointed by the Cabinet of RepMar. KAJUR is therefore affiliated with all RepMar owned and affiliated entities.

(6) Related Party Transactions, Continued

KAJUR utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions for the year ended September 30, 2005 and the related receivable and payable balances as of September 30, 2005 are as follows:

	Expenses	Receivable	Payable
American Samoa Power Authority (ASPA)	$ -	$ -	$ 85,459
Marshall Islands National Telecommunications Authority	43,887	-	5,990
RepMar	-	-	66,571
Other	-	-	8,677
	$ 43,887	$ -	$ 166,697

During the year ended September 30, 2005, the operations of KAJUR were funded by appropriations from RepMar in the amount of $904,357, of which $155,000 was due and receivable from RepMar at September 30, 2005.

In addition, during the year ended September 30, 2005, KAJUR was the recipient of capital grants from RepMar in the amount of $565,614, of which $398,529 was paid directly by RepMar to the vendor for the acquisition and construction of capital assets.

As of September 30, 2005, KAJUR maintained demand deposit accounts with a related financial institution in the amount of $4,032.

In previous years, KAJUR received additional capital grants from ASPA through grant awards from the U.S. Department of the Interior (DOI). As of September 30, 2005, KAJUR recorded deferred revenue of $112,800 representing unexpended capital grants.

(7) Change in Long-Term Liabilities

Changes in long-term liabilities during the year ended September 30, 2005 were as follows:

	Balance at October 1, 2004	Additions	Reductions	Balance at September 30, 2005	Due within One Year
Accrued sick leave	$ 20,051	$ 17,496	$ (3,396)	$ 34,151	$ -

(8) Contingencies

KAJUR has incurred significant net operating losses since inception. KAJUR depends on RepMar for cash and noncash funding to continue its operations. Although RepMar has provided funding in the past, no formal agreement exists to provide funds in the future, except as described in note 6. The continuation of KAJUR's operations is dependent upon future financial support from RepMar in the form of operating subsidies and/or significant improvements in operations through the collection of long outstanding utility receivables and other matters.

(8) Contingencies, Continued

KAJUR participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of $922,563 relating to fiscal years 2004 and 2005 have been set forth in KAJUR's Single Audit Report for the year ended September 30, 2005. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

In the ordinary course of business, claims have been filed against KAJUR. Management does not believe that the plaintiffs will prevail and the ultimate outcome is currently not determinable. Therefore, no provision has been recorded in the accompanying financial statements for losses, if any, that may result.

(9) Subsequent Event

On October 12, 2007, KAJUR and MISSA entered into a promissory note agreement for delinquent taxes amounting to $902,057.

(10) Restatement

Subsequent to the issuance of KAJUR’s 2004 financial statements, KAJUR’s management determined that capital assets and due to affiliates were overstated by $57,329 and understated by $62,403, respectively. As a result, capital assets, due to affiliates, and net assets as of September 30, 2004 have been restated from the amounts previously reported as follows:

	As previously Reported	As Restated
Capital assets, net	$ 7,307,850	$ 7,250,521
Due to affiliates	$ 521,314	$ 583,717
Net assets	$ 5,671,799	$ 5,552,067