KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.
(A COMPONENT UNIT OF THE
REPUBLIC OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements 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, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of KAJUR's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, 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 KAJUR'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.

Because of the inadequacy of accounting records, we were unable to form an opinion regarding the amounts at which receivables, net of an allowance for uncollectible accounts, were recorded at September 30, 2008 and thus were unable to determine whether material modification should be made to operating revenues and the provision for doubtful accounts for the year ended September 30, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to determine whether a material modification should be made to operating revenues and the provision for doubtful accounts for the year ended September 30, 2009, as discussed in the third paragraph above, the financial statements present fairly, in all material respects, the financial position of KAJUR as of September 30, 2010 and 2009, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 9 to the financial statements, prepaid expenses, accounts payable, deferred revenue, Compact funding revenue, supplies and materials expense and net assets at beginning of year as of and for the year ended September 30, 2009 have been restated.

The Management's Discussion and Analysis on pages 3 through 7 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 KAJUR's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2011, 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 audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

May 18, 2011

Kwajalein Atoll Joint Utility Resources

P.O.Box 5819

Ebeye, Marshall Islands, 96970.

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Management's Discussion and Analysis
Year Ended September 30, 2010

This section of the Kwajalein Atoll Joint Utility Resources, Inc. (KAJUR) annual financial report presents our discussion and analysis of KAJUR's financial performance during the fiscal year ended on September 30, 2010, with selected comparative information for the fiscal years ended September 30, 2009 and 2008. It is to be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

KAJUR's net assets decreased by $1,043,791 in 2010. This significant decrease in net assets can be attributed in part to a decrease in grant support for KAJUR from $3,431,612 in 2009 to $1,548,782 received in 2010. KAJUR's net assets increased by $74,962 in 2009 compared to 2008. In 2008, KAJUR was the recipient of capital grants from the Republic of the Marshall Islands (RepMar), of which $466,419 was paid directly by RepMar to vendors for the acquisition and construction of capital assets. In 2009, KAJUR did not receive capital contributions.

The use of prepaid meters and an improved billing system has positively contributed to KAJUR's overall operations as evidenced by the increase in net operating revenues. KAJUR's total net operating revenues increased by $525,174 in 2010, while total operating expenses decreased by $27,540. Electric and service billings increased by $448,980, which is in direct correlation to the continuing increase in fuel prices and the corresponding increase in the tariff. Decreases in the provision for doubtful accounts are attributed to improved billing and collection efforts. Total net operating revenues decreased from $3,248,558 in 2008 to $3,043,796 in 2009. Electric and service, water and other billings decreased by $531,060 from 2008 to 2009. The provision for doubtful account decreased from $781,401 in 2008 to $358,301 in 2009.

Total operating expenses decreased from $6,121,490 in 2009 to $6,093,950 in 2010 and from $6,341,298 in 2008 to $6,121,490 in 2009. Although fuel and lubricant expenses increased slightly other costs, including but not limited to depreciation and operations and maintenance expenses, decreased by $28,891 from 2009 to 2010 and increased by $601,925 from 2008 to 2009. Overall total operating expenses decreased by $27,540 from 2009 to 2010 and by $219,808 from 2008 to 2009.

FINANCIAL ANALYSIS OF KAJUR

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide an indication of KAJUR's financial condition. KAJUR's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

A summary of KAJUR's Statements of Net Assets is presented below:

	2010	2009	2008
Current and other assets	$ 1,577,532	$ 2,235,598	$ 1,623,068
Capital assets	3,487,583	4,241,345	5,060,129
Total assets	5,065,115	6,476,943	6,683,197
Current liabilities	389,032	682,506	1,015,358
Noncurrent liabilities	807,270	881,833	830,197
Total liabilities	1,196,302	1,564,339	1,845,555
Net assets:			
Invested in capital assets	3,487,583	4,241,345	5,060,129
Unrestricted	381,230	671,259	(222,487)
Total net assets	$ 3,868,813	$ 4,912,604	$ 4,837,642

As indicated above, KAJUR's capital assets decreased significantly by $753,762 in 2010 and by $818,784 in 2009. Other assets also decreased significantly by $658,066 for an overall decrease of $1,411,828 in total assets for 2010. In 2009, other assets increased by $716,630 and total assets decreased by $206,254.

As in previous years, there continues to be a trending decrease in KAJUR's liabilities. A decrease of $368,037 in total liabilities was realized between 2009 and 2010 and $281,216 was realized between 2008 and 2009. This significant decrease in liabilities can be attributed to an aggressive effort to pay-off KAJUR's long outstanding debt with the Marshall Islands Social Security Administration (MISSA).

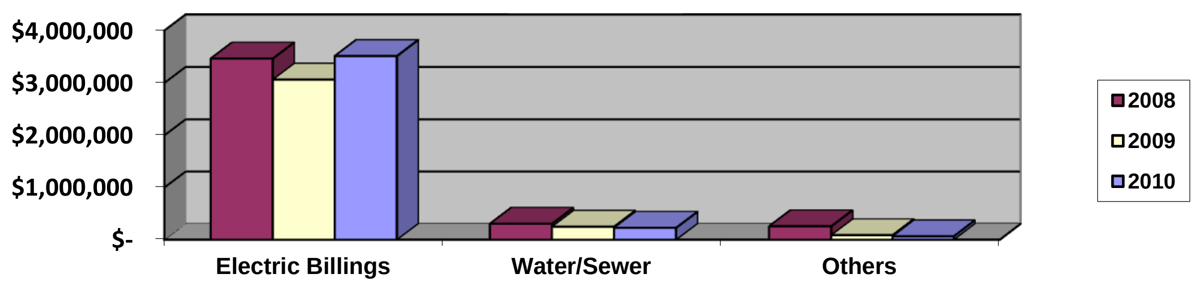
A summary of KAJUR's Statements of Revenues, Expenses and Changes in Net Assets is presented below:

	2010	2009	2008
Revenues:			
Net operating revenues	$ 3,568,970	$ 3,043,796	$ 3,248,558
Nonoperating revenues	1,548,782	3,431,612	3,005,611
Total revenues	5,117,752	6,475,408	6,254,169
Expenses:			
Operating expenses	6,093,950	6,121,490	6,341,298
Nonoperating expenses	67,593	528,253	491,061
Total expenses	6,161,543	6,649,743	6,832,359
Loss before capital contributions	(1,043,791)	(174,335)	(578,190)
Capital contributions	-	-	750,199
Change in net assets	$ (1,043,791)	$ (174,335)	$ 172,009

The Statement of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items that impacted the change in net assets. As indicated above, KAJUR's total revenues decreased from $6,475,408 in 2009 to $5,117,752 in 2010 and increased from $6,254,169 in 2008 to $6,475,408 in 2009. Within operating revenues, electric and service billings increased from $3,065,106 in 2009 to $3,514,086 in 2010 and decreased from $3,465,768 in 2008 to $3,065,106 in 2009. This increase in electric and service billings in 2010 can be attributed to increased efficiency in the use of debit meters and an improved electric billing and collection system that has been put in place. However, freshwater and saltwater billings continue to be an ongoing challenge for KAJUR. Freshwater revenues decreased by $21,241 in 2010 and by $56,800 in 2009 while services for saltwater remained uncollected. An island-wide survey on freshwater and saltwater services was planned for late 2010 but was postponed due to the sudden passing of the former General Manager of KAJUR. This survey has been rescheduled for late June 2011 after a new manager was hired.

The graph below shows the major components of operating revenues for 2008, 2009 and 2010.

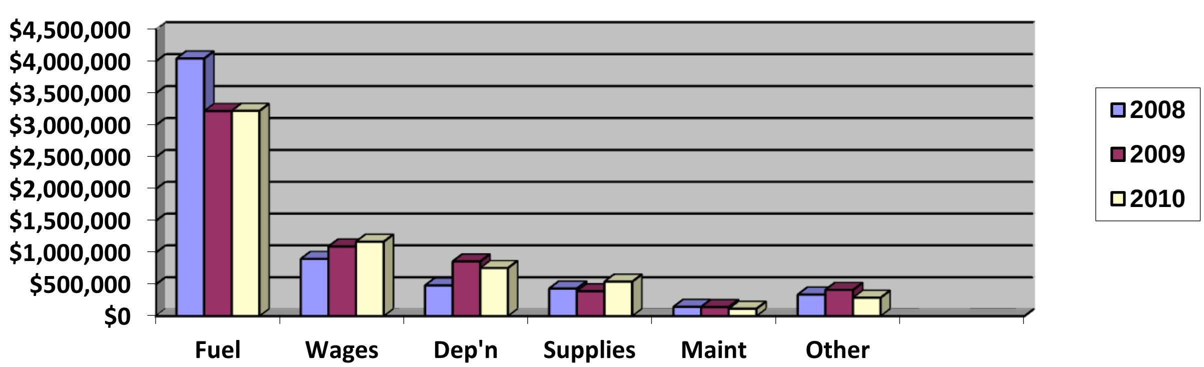
Major Income Items



Fuel and lubricant expenses accounted for approximately 53% of KAJUR's operating expenses in 2010. Salaries and wages were second at $1,169,682, representing 19% of KAJUR's total operating expenses. Total operating expenses for KAJUR decreased slightly by $27,540 in 2010. This slight decrease is also representative of a comparable decrease in operation and maintenance expenses.

The graph below shows the major components of operating expenses for 2008, 2009 and 2010.

Major Expense Items



A summary of KAJUR's Statements of Cash Flows is presented below:

	2010	2009	2008
Cash flows from operating activities	$ (1,123,102)	$ (2,872,493)	$ (2,733,342)
Cash flows from noncapital financing activities	1,388,782	3,303,612	2,731,000
Cash flows from capital and related financing activities	(2,328)	(368,296)	(281,492)
Net change in cash	263,352	62,823	(283,834)
Cash as beginning of year	235,401	172,578	456,412
Cash at end of year	$ 498,753	$ 235,401	$ 172,578

CAPITAL ASSETS

No major capital assets were acquired in 2010. With a continued increase in fuel prices in the world market throughout 2010, scarce resources that would have allowed for the acquisition of much needed capital assets were reserved for higher priority needs. Consequently, cash resources were directed towards the organization's fuel requirements thereby securing uninterrupted operation of the power plant in Ebeye throughout 2010.

A summary of KAJUR's capital assets is presented below:

	2010	2009	2008
Plant and machinery	$ 5,047,589	$ 5,038,589	$ 4,859,959
Distribution system	2,215,325	2,215,325	2,215,325
Water system	1,192,532	1,181,172	1,077,072
Other equipment	1,655,680	1,491,952	1,305,416
	10,111,126	9,927,038	9,457,772
Less accumulated depreciation	(6,623,543)	(5,867,453)	(5,007,361)
	3,487,583	4,059,585	4,450,411
Construction work-in-progress/ equipment in transit	-	181,760	609,718
	$ 3,487,583	$ 4,241,345	$ 5,060,129

Please refer to note 5 in the accompanying financial statements for additional information relating to capital assets.

FUTURE OUTLOOK ON SUSTAINABILITY

KAJUR will continue to monitor operating expenses and maintain tight fiscal constraints and control over utility receivables in order to improve cash collections. The ongoing viability of KAJUR as a going concern will continue to be dependent upon future financial support from RepMar, the United States government and other donor countries in the form of:

a) Subsidies and grants to help offset the increasing price of fuel in the world market;
b) Collection of long outstanding utility receivables primarily from RepMar; and
c) Continued improvements in operational efficiency.

For the past three consecutive years (2007, 2008 and 2009), KAJUR had encountered an increasing trend of operating losses in its overall operations. However, with an improved billing system in place and with the introduction of other systemic efficiency measures, a more positive future outlook for KAJUR's operations is beginning to take shape. In 2010, the overall operating loss for KAJUR decreased by $552,714.

It is essential that management continue to identify the root causes of the operating loss, implement a full cost recovery structure, promote systemic efficiencies and quantify and rectify system losses. Toward this end, management will need to capture critical data from both the technical and non-technical aspects of KAJUR's operations to use in making critical decisions that promote program efficiency.

KAJUR'S FOCUS IN THE COMING FISCAL YEAR

The following are some of KAJUR's highlighted goals for fiscal year 2011:

1) Continue to improve on the existing billing system while KAJUR awaits the implementation and employee training on the new IMP Enterprise System currently being implemented at the Marshall Energy Company, Inc. (MEC) in Majuro.

2) Adopt accounting policies and procedures currently being used at MEC in Majuro and ensure employees receive adequate training on these policies and procedures.

3) Complete and analyze the results of an island-wide survey on freshwater and saltwater services to ensure the billing system works properly for such services.

4) Continue improvements on the existing prepaid billing system through the acquisition of 3-Phase Prepaid Meters to be installed on government and commercial establishments that are having difficulty maintaining their outstanding balances at manageable levels.

5) Continue the current level of engagement with government and commercial entities relative to payment schemes for unmanageable outstanding debts payable to KAJUR.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide KAJUR's customers and other interested parties with an overview of KAJUR's financial operations and financial condition. The Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in the report on the audit of KAJUR's financial statements which is dated June 30, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Kwajalein Atoll Joint Utility Resources, Inc. Manager at P.O. Box 5819, Ebeye MH 96970 or call (692) 329-3799.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Net Assets
September 30, 2010 and 2009

ASSETS	2010	2009 (As Restated)
Current assets:		
Cash	$ 498,753	$ 235,401
Receivables:		
Utility	950,898	4,672,515
Affiliate	448,133	638,734
Employees	10,028	20,511
Other	100,177	242,803
	1,509,236	5,574,563
Less allowance for doubtful accounts	(1,209,532)	(5,072,640)
Total receivables, net	299,704	501,923
Prepaid expenses	274,034	1,192,626
Inventories	505,041	305,648
Total current assets	1,577,532	2,235,598
Capital assets, net	3,487,583	4,241,345
	$ 5,065,115	$ 6,476,943
LIABILITIES AND NET ASSETS		
Current liabilities:		
Note payable, current portion	$ 39,742	$ 48,598
Accounts payable	110,459	255,712
Due to affiliates	15,974	189,161
Accrued liabilities	182,789	141,325
Deferred revenue	40,068	47,710
Total current liabilities	389,032	682,506
Accrued sick leave - long-term	64,833	55,845
Note payable, net of current portion	742,437	825,988
Total liabilities	1,196,302	1,564,339
Contingencies		
Net assets:		
Invested in capital assets	3,487,583	4,241,345
Unrestricted	381,230	671,259
Total net assets	3,868,813	4,912,604
	$ 5,065,115	$ 6,476,943

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

	2010	2009 (As Restated)
Operating revenues:		
Electric and service billings	$ 3,514,086	$ 3,065,106
Water	228,269	249,510
Other	66,370	87,481
Total operating revenues	3,808,725	3,402,097
Less provision for doubtful accounts	(239,755)	(358,301)
Total net operating revenues	3,568,970	3,043,796
Operating expenses:		
Fuel and lubricants	3,222,639	3,221,288
Salaries, wages and benefits	1,169,682	1,093,612
Depreciation	756,090	860,092
Supplies and materials	541,254	392,093
Travel and transportation	125,400	216,779
Operations and maintenance	115,126	142,491
Contractual services	20,244	16,447
Rental	17,453	-
Communications	6,900	14,752
Miscellaneous	119,162	163,936
Total operating expenses	6,093,950	6,121,490
Operating loss	(2,524,980)	(3,077,694)
Nonoperating revenues (expenses):		
Compact funding	1,548,782	3,431,612
Interest	(67,593)	(97,165)
Loss on write-off of fixed assets	-	(431,088)
Total nonoperating revenues (expenses), net	1,481,189	2,903,359
Change in net assets	(1,043,791)	(174,335)
Net assets at beginning of year	4,912,604	5,086,939
Net assets at end of year	$ 3,868,813	$ 4,912,604

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

	2010	2009 (As Restated)
Cash flows from operating activities:		
Cash received from customers	$ 3,753,064	$ 2,981,730
Cash payments to suppliers for goods and services	(3,825,259)	(4,786,623)
Cash payments to employees for services	(1,050,907)	(1,067,600)
Net cash used for operating activities	(1,123,102)	(2,872,493)
Cash flows from noncapital financing activities:		
Promissory note repayment	(92,407)	(77,526)
Interest paid	(67,593)	(50,474)
Operating subsidies received from RepMar	1,548,782	3,431,612
Net cash provided by noncapital financing activities	1,388,782	3,303,612
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,328)	(368,296)
Net cash used for capital and related financing activities	(2,328)	(368,296)
Net change in cash	263,352	62,823
Cash at beginning of year	235,401	172,578
Cash at end of year	$ 498,753	$ 235,401
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (2,524,980)	$ (3,077,694)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	756,090	860,092
Provision for doubtful accounts	239,755	358,301
(Increase) decrease in assets:		
Receivables:		
Utility	(381,246)	141,347
Affiliate	190,601	(638,734)
Employees	10,483	(4,331)
Other	142,626	(38,892)
Prepaid expenses	918,592	(1,163,506)
Inventories	(199,393)	692,008
Increase (decrease) in liabilities:		
Accounts payable	(145,253)	206,339
Social security taxes payable	-	(15,070)
Due to affiliates	(173,187)	(256,876)
Deferred revenue	(7,642)	19,110
Other current and accrued liabilities	50,452	45,413
Net cash used for operating activities	$ (1,123,102)	$ (2,872,493)

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

	2010	2009
Noncash investing, capital and financing activities:		
Capital assets	$ -	$ 326,988
Prepaid expenses	-	104,100
Loss on write-off of capital assets	-	(431,088)
	$ -	$ -

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 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 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*, 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.

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.

(2) Summary of Significant Accounting Policies, Continued

- 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, 2010 and 2009, the carrying amount of cash was $498,753 and $235,401, respectively, and the corresponding bank balances were $564,605 and $255,191, respectively. At September 30, 2010 and 2009, 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, 2010 and 2009. Bulk fuel inventories are held for power plant use.

Prepayments

Certain payments to vendors or persons for goods and services reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying financial statements.

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, 2010 and 2009, is $73,420 and $53,035, respectively, and is included within the statements 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, 2010 and 2009, is $129,667 and $111,789, respectively, and is included within the statements of net assets as accrued liabilities and accrued sick leave - long-term.

New Accounting Standards

During fiscal year 2010, KAJUR implemented the following pronouncements:

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

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

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

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

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

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

(2) Summary of Significant Accounting Policies, Continued

Reclassification

Certain 2009 balances in the accompanying financial statements have been reclassified to conform to the 2010 presentation.

(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. Settled claims and losses as a result of these risks have not been considered material to the financial statements by management for the past three years.

(4) Inventories

Inventories at September 30, 2010 and 2009, consist of the following:

	2010	2009
Materials and supplies	$ 334,625	$ 177,572
Fuel	148,576	109,053
Lubricants	21,840	19,023
	$ 505,041	$ 305,648

(5) Capital Assets

Capital assets activity for the years ended September 30, 2010 and 2009 is as follows:

	2010			
	October 1, 2009	Additions and Transfers	Retirements	September 30, 2010
Plant and machinery	$ 5,038,589	$ 9,000	$ -	$ 5,047,589
Distribution system	2,215,325	-	-	2,215,325
Water system	1,181,172	11,360	-	1,192,532
Other equipment	1,491,952	163,728	-	1,655,680
	9,927,038	184,088	-	10,111,126
Less accumulated depreciation	(5,867,453)	(756,090)	-	(6,623,543)
	4,059,585	(572,002)	-	3,487,583
Equipment in-transit	181,760	(181,760)	-	-
	$ 4,241,345	$ (753,762)	$ -	$ 3,487,583

(5) Capital Assets, Continued

	2009			
	October 1, 2008	Additions and Transfers	Retirements	September 30, 2009
Plant and machinery	$ 4,859,959	$ 178,630	$ -	$ 5,038,589
Distribution system	2,215,325	-	-	2,215,325
Water system	1,077,072	104,100	-	1,181,172
Other equipment	1,305,416	186,536	-	1,491,952
	9,457,772	469,266	-	9,927,038
Less accumulated depreciation	(5,007,361)	(860,092)	-	(5,867,453)
	4,450,411	(390,826)	-	4,059,585
Construction work-in-progress	609,718	-	(609,718)	-
Equipment in-transit	-	181,760	-	181,760
	$ 5,060,129	$ (209,066)	$ (609,718)	$ 4,241,345

At September 30, 2010 and 2009, management of KAJUR determined that certain capital assets in the amount of $-0- and $431,088, respectively, no longer existed. Accordingly, these capital assets were written-off resulting in a loss of $-0- and $431,088, respectively, for the years ended September 30, 2010 and 2009.

(6) MISSA Note Payable

At September 30, 2010 and 2009, KAJUR was liable for taxes, including certain delinquent taxes, interest and penalties, payable to the Marshall Islands Social Security Administration (MISSA) in the amounts of $782,179 and $874,586, respectively. 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, interest of 12% per annum, commencing October 31, 2007. For the years ended September 30, 2010 and 2009, KAJUR incurred interest relating to these delinquent taxes of $67,593 and $94,304, respectively.

During the years ended September 30, 2010 and 2009, employer contributions incurred by KAJUR for MISSA taxes amounted to $97,337 and $86,676, respectively.

Annual repayment requirements to maturity for principal and interest are as follows:

Year ending September 30,	Principal	Interest	Total
2011	$ 39,742	$ 56,258	$ 96,000
2012	45,780	50,220	96,000
2013	51,768	44,232	96,000
2014	57,272	38,728	96,000
2015	62,605	33,395	96,000
2016 - 2020	387,076	92,924	480,000
2021 - 2022	137,936	5,455	143,391
	$ 782,179	$ 321,212	$ 1,103,391

(6) MISSA Note Payable, Continued

Long-term debt activity during the years ended September 30, 2010 and 2009 were as follows:

	Balance at October 1, 2009	Additions	Reductions	Balance at September 30, 2010	Amount due in One Year
Note payable:					
MISSA	$ 874,586	$ -	$ (92,407)	$ 782,179	$ 39,742
Other:					
Compensated absences	164,824	38,263	-	203,087	138,253
Total	$ 1,039,410	$ 38,263	$ (92,407)	$ 985,266	$ 177,995

	Balance at October 1, 2008	Additions	Reductions	Balance at September 30, 2009	Amount due in One Year
Note payable:					
MISSA	$ 873,941	$ 78,171	$ (77,526)	$ 874,586	$ 48,598
Other:					
Compensated absences	161,218	3,606	-	164,824	108,880
Total	$ 1,035,159	$ 81,777	$ (77,526)	$ 1,039,410	$ 157,478

(7) Related Party Transactions

KAJUR is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities.

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, in addition to the MISSA note payable discussed in the preceding footnote, for the years ended September 30, 2010 and 2009 and the related receivable and payable balances as of September 30, 2010 and 2009, are as follows:

	2010		
	Expenses	Receivable	Payable
Marshalls Energy Company, Inc.	$ 3,285,594	$ -	$ 15,974
Marshall Islands National Telecommunications Authority	21,671	11,781	-
RepMar	-	436,352	-
	$ 3,307,265	$ 448,133	$ 15,974

	2009		
	Expenses	Receivable	Payable
American Samoa Power Authority (ASPA)	$ -	$ -	$ 85,459
Marshalls Energy Company, Inc.	2,394,642	-	45,595
Marshall Islands National Telecommunications Authority	14,752	86,620	-
RepMar	-	552,114	58,107
	$ 2,409,394	$ 638,734	$ 189,161

During the years ended September 30, 2010 and 2009, KAJUR received appropriations from RepMar in the amounts of $1,548,782 and $3,431,612, respectively, which were paid by RepMar directly to vendors for the purchase of fuel and lubricants.

(7) Related Party Transactions, Continued

As of September 30, 2010 and 2009, KAJUR maintained demand deposit accounts with a related financial institution in the amount of $564,605 and $255,191, respectively.

(8) Going Concern

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. 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.

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 $1,375,456 relating to fiscal years 2004 through 2006 have been set forth in KAJUR's Single Audit Report for the year ended September 30, 2010. 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) Restatement

The financial statements as of and for the year ended September 30, 2009 had been restated to reflect $355,900 of unrecorded Compact funding prepaid to a vendor, $50,000 recorded as supplies and materials expense that was actually a prepayment, and $216,164 and $118,592 of accounts payable and deferred revenues, respectively, that were determined to be invalid. The following accounts have been restated for the year ended September 30, 2009:

	As Originally Stated	As Restated
Prepaid expenses	$ 786,726	$ 1,192,626
Supplies and materials	$ 442,093	$ 392,093
Compact funding	$ 3,075,712	$ 3,431,612
Accounts payable	$ 386,417	$ 255,712
Deferred revenue	$ 166,302	$ 47,710
Net assets at beginning of year	$ 4,837,642	$ 5,086,939