

January 11, 2005

CONFIDENTIAL

Mr. William F. Roberts
General Manager
Marshalls Energy Company, Inc.
P.O. Box 1439
Majuro, Marshall Islands 96960

Dear Mr. Roberts:

In planning and performing our audit of the financial statements of Marshalls Energy Company, Inc. (MEC) for the year ended September 30, 2004, on which we have issued our report dated January 11, 2005, we developed the following recommendations concerning certain matters related to MEC's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Electricity Receivables

As of September 30, 2004, the aged electricity receivables subsidiary ledger indicated that customer accounts, excluding RepMar-related accounts, with balances greater than ninety days represented sixty-three (63) percent of the total balance of \$4,134,398. These balances include customers who are deceased or who have left the island, for which collection is unlikely. We recommend that management review the aged electricity receivables subsidiary ledger and determine a listing of uncollectible accounts for approval by the Board for write-off.

(2) Promissory Notes

Customer accounts are sometimes not disconnected despite noncompliance with promissory note payment terms. We recommend that management ensure that promissory note terms are enforced.

(3) Materials and Supplies

Of eighteen materials and supplies items tested, recorded unit costs of two items (part #s PO90A and Shell Rimula 40, valued at \$33,485 and \$315, respectively, per unit) varied from actual unit costs of \$3,450 and \$335, respectively. We recommend that management ensure that materials and supplies are accurately valued.

Mr. William F. Roberts
General Manager
Marshalls Energy Company, Inc.
January 11, 2005

Page 2

(4) Gross Revenue Tax (GRT)

During the year ended September 30, 2004, MEC recorded GRT expense of \$342,635. However, MEC made total payments of \$480,940 relating to 2004 GRT, including a subsequent payment of \$178,473 on October 26, 2004, resulting in an overpayment of approximately \$138,000. We were informed that MEC has received credits from the Division of Revenue and Taxation totaling \$99,367. We recommend that management ensure proper credit is received for the overpayment.

(5) Depreciation Rates

MEC is required to apply RUS approved depreciation rates on all fixed assets. The list of approved depreciation rates could not be located. We recommend that this list be located and provided to relevant accounting staff. This matter was discussed in our previous letter dated December 18, 2003.

(6) Insurance

The franchise agreement with RepMar governing solar and other renewable alternative energy systems, effective April 15, 2003, requires that MEC maintain general comprehensive liability insurance covering the grantor (RepMar) and MEC, and their respective employees against liability claims for bodily injuries, death and property damages occasioned by franchise activities. The franchise covers the entire Republic of the Marshall Islands. The renewed insurance policy covers only MEC and its employees for incidents occurring at two locations (Majuro, including Rongrong, and Jaluit). We recommend that management comply with the franchise requirements.

(7) General Accounting

Journal entries and adjustments should be approved and recorded in the general ledger by separate individuals to ensure accuracy and authorization. Journal entries and adjustments were initiated and recorded by the same accounting personnel with no independent review. Certain of these entries and adjustments were incorrect and were corrected through proposed audit adjustments. We recommend that management ensure that all journal entries and adjustments recorded in the general ledger are properly reviewed and approved.

* * * * *

This report is intended solely for the information and use of management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

