MARSHALLS ENERGY COMPANY, INC.

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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshalls Energy Company, Inc.:

We have audited the accompanying statements of net deficiency of Marshalls Energy Company, Inc. (MEC), a component unit of the Republic of the Marshall Islands, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net deficiency and of cash flows for the years then ended. These financial statements are the responsibility of MEC'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 MEC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and the 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, the financial statements referred to above present fairly, in all material respects, the financial position of MEC as of September 30, 2012 and 2011, and the changes in its net deficiency and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2013, on our consideration of MEC'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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Revenues, Expenses and Changes in Net Deficiency by Source for the year ended September 30, 2012 (page 26) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenses and Changes in Net Deficiency by Source for the year ended September 30, 2012 is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte + Touche LLP

August 14, 2013

Marshalls Energy Company, Inc. (MEC) herewith presents a discussion and analysis of the company's financial performance for the financial year ended September 30, 2012. It is to be read in conjunction with the financial statements following this section.

FINANCIAL HIGHLIGHTS

MEC's net assets increased by $0.71 million in 2012 compared to a decrease in net assets of $1.21 million in 2011. The increase in net assets is mainly attributed to the receipt of grant income during the year. MEC received a total of $1.11 million in grant money during 2012 from donors such as ADB, DOI and AUSAID mainly for the purchase of prepaid meters.

Operating revenues for the year were $20.89 million, an increase of $1.77 million in comparison to $19.12 million in operating revenues in 2011.

Provision for doubtful accounts of $2.22 million increased significantly by $1.14 million in 2012 compared to $1.08 million in 2011. This increase is mainly attributable to two state-owned entities, namely, the Marshall Islands Resort and the Majuro Water and Sewer Company, who were not able to make sufficient payment for utility usage during the fiscal year.

Total utility operating expenses were $20.92 million and $20.29 million in 2012 and 2011, respectively. There was a slight increase of $0.63 million. Fuel cost continues to be a significant component of generation operating costs and represents 64% of total generation costs.

Total net operating revenues for non-utility operations, with fuel sales being the major component, were $31.38 million and $27.26 million in 2012 and 2011, respectively. Total non-utility operating expenses increased by $3.82 million, with $29.60 million and $25.78 million in 2012 and 2011, respectively. This increase is a result of an increase in fuel sales by 15%. In addition, this is a positive indicator that MEC is able to maintain pricing competitiveness and increase market share despite stiff competition in the high seas market.

MEC received a total of $1.11 million in grants during the year. $0.60 million was received from ADB mainly for the purchase of 350 prepaid meters, cash power vending system, and Pielstick engine parts. $0.31 million was received from AUSAID for the purchase of 1,830 prepaid meters, and $0.20 million was received from DOI for the purchase of another 680 prepaid meters. MEC's aim is to convert its 3,300 plus residential customers into the prepaid metering program.

MEC received subsidies of $0.87 million in 2012 compared to subsidies of $0.86 million in 2011 as cost recovery for the operations of Wotje and Jaluit power plants. Subsidies for Jaluit and Wotje amounted to $474,176 and $400,768, respectively.

FINANCIAL ANALYSIS OF MEC

The Statement of Net Deficiency and the Statement of Revenues, Expenses and Changes in Net Deficiency provide an indication of MEC's financial condition. MEC's net deficiency reflect the difference between total assets and total liabilities. A decrease in net deficiency over time normally indicates an improvement in financial condition. As illustrated in the figures below, MEC's net deficiency increased for the year ended September 30, 2012.

The Summary Statement of Net Deficiency for MEC is presented below:

	2012	2011	2010
Current and other assets	$ 10,006,679	$ 16,283,319	$ 7,335,348
Capital assets	7,294,148	7,657,924	8,721,864
Total assets	17,300,827	23,941,243	16,057,212
Current liabilities	14,595,841	22,415,766	13,393,374
Non-current liabilities	14,399,733	13,925,892	13,858,805
Total liabilities	28,995,574	36,341,658	27,252,179
Net deficiency:			
Invested in capital assets	1,936,445	2,041,690	2,394,234
Deficiency	(13,631,192)	(14,442,105)	(13,589,201)
Total net deficiency	$ (11,694,747)	$ (12,400,415)	$ (11,194,967)

Total assets increased by $7.88 million (or 49%) from 2010 to 2011 and decreased from $23.94 million in 2011 to $17.30 million in 2012. The decrease in total assets of $6.64 million (or 28%) from 2011 to 2012 is due to the decrease in fuel and supplies by $7.23 million, an increase in net accounts receivable of $0.38 million, and an increase in other assets of $0.11 million.

Net capital assets decreased from $7.66 million in 2011 to $7.29 million in 2012. The decrease is mainly a result of annual depreciation.

Refer to note #4 to the accompanying financial statements for additional information relating to capital assets.

Total liabilities decreased from $36.34 million in 2011 to $29.00 million in 2012. The overall decrease of $7.34 million (or 20%) is mainly due to the decrease in short-term debt and accounts payable-fuel.

Current liabilities decreased by $7.82 million. The decrease is primarily due to a decrease in short-term debt by $3.58 million and accounts payable-fuel of $4.99 million, and a net increase in other current liabilities of $0.75 million.

Refer to note #5 to the accompanying financial statements for additional information relating to long-term debt.

A summary of MEC's Statement of Revenues, Expenses and Changes in Net Deficiency is presented below:

	2012	2011	2010
Revenue:			
Utility revenue	$ 18,674,599	$ 18,047,014	$ 14,965,401
Non-utility revenue	31,383,640	27,258,015	19,766,821
Total revenue	50,058,239	45,305,029	34,732,222
Expenses:			
Utility expenses	20,919,743	20,294,239	17,897,398
Non-utility expenses	29,590,490	25,779,427	18,495,781
Total expenses	50,510,233	46,073,666	36,393,179
Operating loss	(451,994)	(768,637)	(1,660,957)
RMI subsidy	874,944	862,243	926,204
Other grants	689,697	-	-
Payments to RepMar	(165,182)	(495,545)	(165,181)
Loss on write-off of capital assets	210,428	-	(129,914)
Interest expense	(870,297)	(803,509)	(1,118,185)
Capital contributions	418,072	-	783,787
	1,157,662	(436,811)	296,711
Change in net deficiency	$ 705,668	$ (1,205,448)	$ (1,364,246)

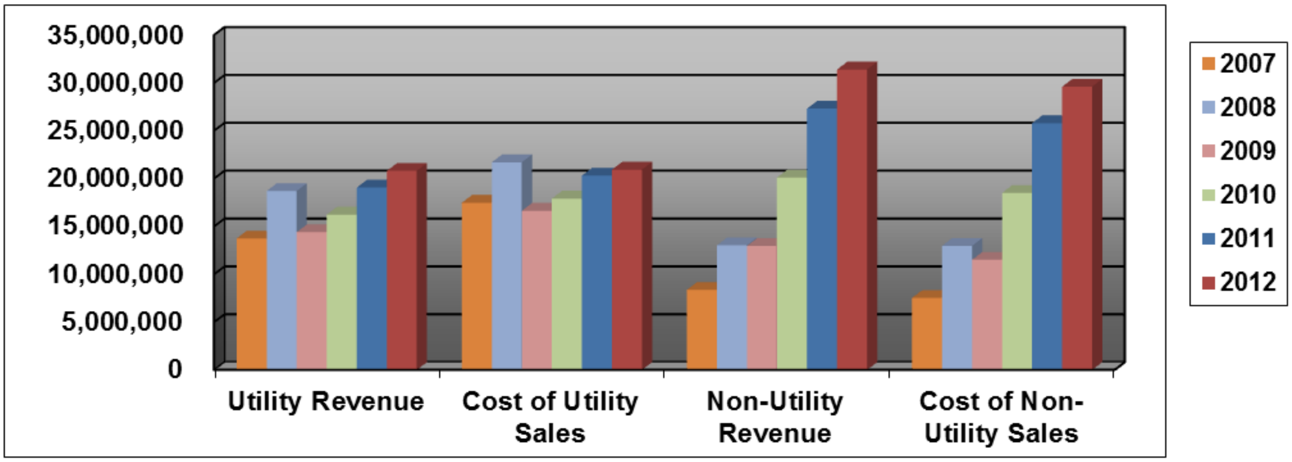
The Statements of Revenue, Expenses and Changes in Net Deficiency identify the various revenue and expense items that contributed to the change in net deficiency. MEC's total revenue increased in 2011 by $10.57 million (or 30%) to a total of $45.31 million compared to $34.73 million in 2010. In 2012, MEC's total revenue further increased by $4.75 million (or 10%) to a total of $50.06 million. The increase in revenue is mainly due to the increase in world fuel prices and an increase in the volume of fuel sales.

Net electricity billings increased by $3.08 million (or 21%) from $14.97 million in 2010 to $18.05 million in 2011 and increased by $0.62 million (or 3%) in 2012 to $18.67 million, of which $2.22 million pertains to doubtful accounts. The provision for doubtful accounts in 2012 has been the highest recorded in the past five years. Approximately $1.40 million of the provision is for two Repmar affiliates, namely, Marshall Islands Resort and Majuro Water Sewer Company.

Non-utility revenue is mainly fuel sales. Non-utility revenue increased by $7.49 million (or 38%) in 2010 to $27.26 million in 2011. In 2012, there was an increase of $4.12 million (or 15%). This increase is due to the increase in fuel prices and fuel volume sales in 2012.

The operating loss for 2012 was $0.45 million compared to $0.77 million and $1.66 million in 2011 and 2010, respectively. The operating loss for 2012 is because of a provision for doubtful accounts of $2.22 million, compared to $1.08 million in 2011. Since 2010, MEC has significantly improved operating losses from $1.66 million in 2010 to $0.45 million in 2012.

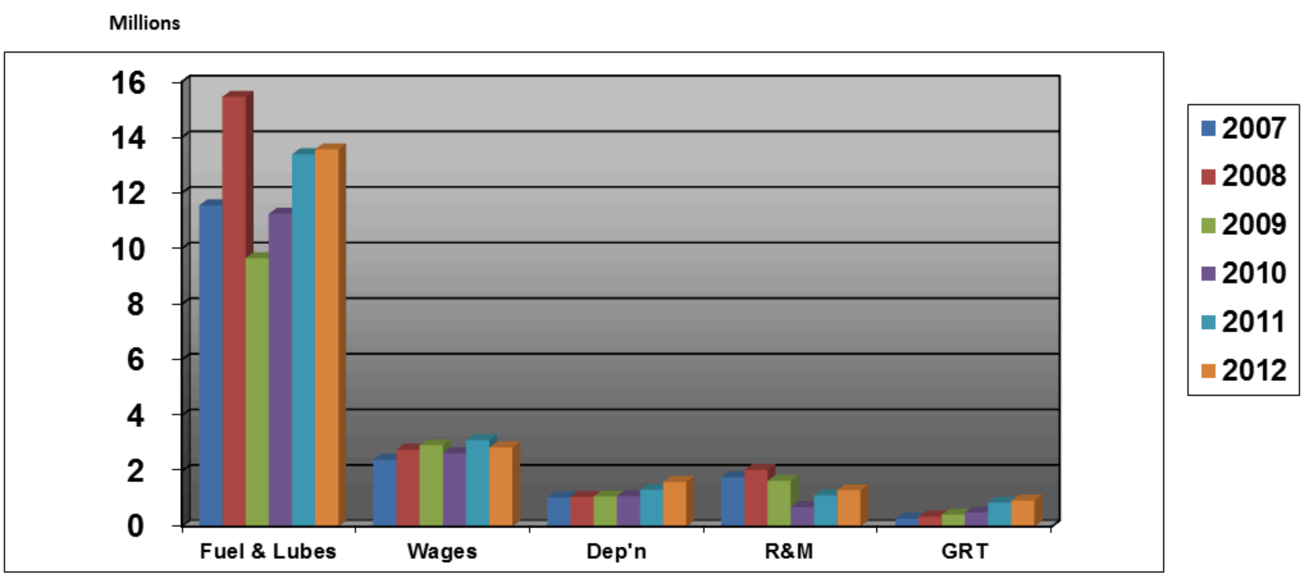
The graphic below shows the major components of revenue from 2007 through to 2012:



Total expenses increased from $36.40 million in 2010 to $46.07 million in 2011 and increased to $50.51 million in 2012. The increase of $0.64 million in 2012 relates to an increase in the cost of fuel of $0.30 million, a decrease in the cost of power of $0.09 million, an increase in administrative and general expenses of $0.24 million, an increase in depreciation and amortization of $0.28 million, and a decrease in distribution expenses of $0.10 million.

Cost of fuel continues to be the most significant component of generation operating costs and represented 64% of total operating costs for 2012 and 2011. In 2010, cost of fuel represented 80% of total operating costs. Cost of fuel for generation increased by $0.30 million (or 2%) from 2011 to 2012. This did not increase proportionately to the increase in electricity sales of $1.75 million (or 9%) because power generation maintained fuel efficiency throughout the year.

The following graphic shows the major components of operating expenses, excluding the cost of fuel sold, from 2007 through to 2012:



CASH FLOW

Net cash provided by operating activities for 2012 was $1.33 million compared to net cash used for operating activities of $2.47 million in 2011. In 2011, the source of cash used for fuel purchases were a Repmar subsidy of $0.86 million and proceeds from short-term debt of $2.63 million. In 2012, MEC's cash position slightly increased as MEC continues to improve collection efforts.

FUTURE OUTLOOK ON SUSTAINABILITY

Inspite of MEC's net deficiency position, the future outlook on sustainability for MEC is promising, as a wholly state-owned entity. With the development and implementation of the Comprehensive Recovery Plan (CRP), MEC anticipates that the road to recovery, both operationally and financially, will be challenging yet achievable. The CRP, a three-year roadmap initiated during the year, plays a significant and positive role towards MEC's road to recovery and efforts to secure a viable and sustainable future for MEC. The MEC CRP goals are:

a. Strengthen MEC and Energy Sector Governance
b. Improve Organizational Policies, Performance and Capacity
c. Strengthen and Stabilize Company Finances

In addition to the goals and objectives/key activities set forth by the CRP, MEC will continue to closely monitor operating expenses and maintain tight fiscal constraints and control over utility receivables in order to further improve cash collections and the net asset position. MEC, as a viable going concern, will continue to be dependent on the financial support of RepMar in the form of:

a. Timely payment by RepMar for services provided,
b. Collection of long outstanding utility receivables, and
c. Continuing improvements in operations and financial condition.

During fiscal year 2012, there was one tariff increase. This took effect in April 2012. Despite the wildly fluctuating world fuel prices, studies indicate that MEC has been able to maintain electricity tariffs at levels which are one of the lowest in the Pacific.

MEC FOCUS IN THE COMING FISCAL YEAR

Increase in provision for allowance for doubtful accounts and grants received during the year were key factors in MEC's positive change in net deficiency position of $0.71 million for the year ended September 30, 2012. To improve the company's future sustainability and viability, MEC expects the upcoming fiscal year 2013 to be a more challenging and exciting journey.

MEC's focus in the coming fiscal year includes but not limited to:

- Monitor MEC's CRP. As indicated above, the CRP is an aggressive roadmap in MEC's efforts to revive the company's core operations and financials within a three year timeframe. During the year, various objectives were in stages of progress and completion.

- Improve/increase cash flow to support the CRP goals. MEC management and MEC Board of Directors must actively lead and pursue the opportunities identified for a favorable outcome and without any further delays.

Accounts receivable collections is a necessity to sustain MEC's operations in the interim period. Disconnection policy needs to be enforced without delay or prejudice. As long as MEC allows outstanding accounts receivable balances to age, the greater MEC's risk and exposure is to bad debt and continued cash flow constraints.

- Strengthen financial processes through the promotion of an internally controlled environment, development and adherence to accounting policies, implementation of a new financial and accounting software, and capacity building. MEC's financial processes are crucial to the company's future. Alongside MEC's core operation rehabilitation of the power plant, financial processing is also a key priority area to ensure financial data are recorded accurately, properly and timely for financial statement reporting and management reporting. Management reporting is necessary to ensure that MEC management and Board of Directors are provided the tools and resources to make an informed decision.

- Promote energy efficiency and conservation among consumers. In support of RepMar's National Energy Plan to provide affordable, reliable, clean energy and to sustain quality of life, MEC must start to play an active role in creating awareness and providing consumers with the resources to conserve energy. Although energy conservation will result in decreased annual revenue, the more significant and lasting impact will be the power generation cost savings and social responsibility to educate consumers to be more energy efficient.

Management's Discussion and Analysis for the year ended September 30, 2011 is set forth in the report on the audit of MEC's financial statements dated August 15, 2012. That Discussion and Analysis explains the major factors impacting the 2011 financial statements.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide MEC's customers and other stake holders with an overview of the company's operations and financial condition as at September 30, 2012. Should the reader have questions regarding the information included in this report, or wish to request additional financial information, please contact the Marshalls Energy Company, Inc. General Manager at P.O. Box 1439, Majuro, Marshall Islands, MH 96960.

MARSHALLS ENERGY COMPANY, INC.

Statements of Net Deficiency
September 30, 2012 and 2011

ASSETS	2012	2011
Utility plant:		
Electric plant in service	$ 22,634,906	$ 22,286,841
Construction work in progress	441,828	22,700
Total utility plant	23,076,734	22,309,541
Less accumulated depreciation and amortization	(15,801,693)	(14,677,078)
Net utility plant	7,275,041	7,632,463
Nonutility property	181,862	181,862
Less accumulated depreciation	(162,755)	(156,401)
Nonutility property, net	19,107	25,461
Total capital assets	7,294,148	7,657,924
Other non-current assets	100,000	-
Current assets:		
Cash	686,696	592,436
Accounts receivable:		
Electricity	7,249,255	7,083,943
RepMar and other affiliates	3,985,264	4,177,863
Other	1,119,441	894,873
Total accounts receivable	12,353,960	12,156,679
Less allowance for uncollectible accounts	(5,256,420)	(5,438,696)
Net accounts receivable	7,097,540	6,717,983
Fuel and supplies	1,740,265	8,972,900
Prepayments	382,178	-
Total current assets	9,906,679	16,283,319
Total assets	$ 17,300,827	$ 23,941,243

See accompanying notes to financial statements.

MARSHALLS ENERGY COMPANY, INC.

Statements of Net Deficiency, Continued
September 30, 2012 and 2011

NET DEFICIENCY AND LIABILITIES	2012	2011
Net deficiency:		
Invested in capital assets, net of related debt	$ 1,936,445	$ 2,041,690
Deficiency	(13,631,192)	(14,442,105)
Total net deficiency	(11,694,747)	(12,400,415)
Commitment and contingencies		
Noncurrent liabilities:		
Long-term debt	14,399,733	13,925,892
Current liabilities:		
Short-term debt	-	3,577,014
Current portion of long-term debt	655,968	1,191,779
Accounts payable - fuel	7,359,557	12,350,811
Accounts payable - other	1,082,682	1,213,145
Advances from related party	2,000,000	-
Payable to affiliates	577,279	499,533
Accrued building and engine repairs	1,930,394	2,140,822
Accrued taxes	344,162	555,628
Other accrued liabilities	498,979	326,613
Deferred revenue	146,820	560,421
Total current liabilities	14,595,841	22,415,766
Total liabilities	28,995,574	36,341,658
Total net deficiency and liabilities	$ 17,300,827	$ 23,941,243

See accompanying notes to financial statements.

MARSHALLS ENERGY COMPANY, INC.

Statements of Revenues, Expenses and Changes in Net Deficiency
Years Ended September 30, 2012 and 2011

	2012	2011
Utility operations:		
Operating revenues:		
Electricity sales	$ 20,794,441	$ 19,045,398
Other	95,829	78,862
	20,890,270	19,124,260
Less provision for doubtful accounts	(2,215,671)	(1,077,246)
Total net operating revenues	18,674,599	18,047,014
Operating expenses:		
Cost of fuel	13,323,084	13,024,474
Cost of power	3,291,979	3,390,621
Administrative and general	1,475,185	1,232,460
Distribution operations	1,226,284	1,326,092
Depreciation and amortization	1,603,211	1,320,592
Total operating expenses	20,919,743	20,294,239
Operating loss from utility operations	(2,245,144)	(2,247,225)
Nonutility operations:		
Operating revenues:		
Fuel sales	30,474,856	26,481,063
Propane sales	701,372	652,280
Lubricants sales	66,904	27,209
Other	140,508	136,322
	31,383,640	27,296,874
Less provision for doubtful accounts	-	(38,859)
Total net operating revenues	31,383,640	27,258,015
Operating expenses:		
Cost of fuel	28,181,218	24,527,690
Cost of propane and lubricants	411,609	365,153
Other	997,663	886,584
Total operating expenses	29,590,490	25,779,427
Operating income from nonutility operations	1,793,150	1,478,588
Operating loss	(451,994)	(768,637)
Nonoperating income (expense):		
RepMar subsidy	874,944	862,243
Payments to RepMar	(165,182)	(495,545)
Reversal of accrual for building and engine repairs	210,428	-
Other grants	689,697	-
Interest expense	(870,297)	(803,509)
Total nonoperating income (expense), net	739,590	(436,811)
Capital contributions - RepMar	418,072	-
Change in net deficiency	705,668	(1,205,448)
Net deficiency at beginning of year	(12,400,415)	(11,194,967)
Net deficiency at end of year	$ (11,694,747)	$ (12,400,415)

See accompanying notes to financial statements.

MARSHALLS ENERGY COMPANY, INC.

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 49,265,080	$ 41,183,605
Cash payments to suppliers for goods and services	(45,092,926)	(40,973,007)
Cash payments to employees for services	(2,842,410)	(2,680,069)
Net cash provided by (used for) operating activities	1,329,744	(2,469,471)
Cash flows from noncapital financing activities:		
Subsidy from RepMar	874,944	862,243
Payments to RepMar	(165,182)	(495,545)
Grants received	689,697	251,530
Proceeds from advances from related party	2,000,000	-
Net proceeds from (payments of) short-term debt	(2,760,404)	2,628,896
Interest paid on short-term debt	(121,955)	(236,686)
Principal paid on long-term debt	(346,275)	(8,762,131)
Interest paid on long-term debt	(90,497)	(243,784)
Proceeds from long-term debt	-	9,494,897
Net cash provided by noncapital financing activities	80,328	3,499,420
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(862,508)	(266,047)
Capital contributions received	418,072	-
Principal paid on long-term debt	(532,305)	(437,622)
Interest paid on long-term debt	(339,071)	(383,857)
Net cash used for capital and related financing activities	(1,315,812)	(1,087,526)
Net change in cash	94,260	(57,577)
Cash at beginning of year	592,436	650,013
Cash at end of year	$ 686,696	$ 592,436
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	$ (451,994)	$ (768,637)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,226,284	1,329,987
Provision for doubtful accounts	2,215,671	1,116,105
(Increase) decrease in assets:		
Accounts receivable:		
Electricity	(2,563,258)	(1,751,138)
Affiliates	192,599	(2,645,890)
Other	(224,569)	(374,222)
Fuel and supplies	7,232,635	(6,115,364)
Prepayments	(382,178)	-
Other assets	(100,000)	-
Increase (decrease) in liabilities:		
Accounts payable - fuel	(4,991,254)	6,577,867
Accounts payable - other	(130,463)	384,722
Payable to affiliates	77,746	(61,892)
Accrued taxes	(211,465)	261,989
Other accrued liabilities	(146,409)	43,080
Deferred revenue	(413,601)	(466,078)
Net cash provided by (used for) operating activities	$ 1,329,744	$ (2,469,471)

See accompanying notes to financial statements.

MARSHALLS ENERGY COMPANY, INC.

Statements of Cash Flows, Continued
Years Ended September 30, 2012 and 2011

	2012	2011
Summary disclosure of noncash activities:		
Reversal of accrual for building and engine repairs	$ 210,428	$ -
Off-set of advances from RepMar:		
Electricity receivables	$ -	$ 764,961
Advances from RepMar	-	(764,961)
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

The Marshalls Energy Company, Inc. (MEC) was granted a corporate charter by the Cabinet of the Republic of the Marshall Islands (RepMar) on February 2, 1984. MEC's principal lines of business are predominantly the generation and transmission of electricity and the buying and selling of petroleum products. Other lines of business include the rental of equipment and accommodation facilities. The principal markets for the generation and transmission of electricity are government agencies, businesses and residential customers located on the atolls of Majuro, Jaluit and Wotje. Petroleum products are sold primarily to foreign and domestic fishing vessels.

An exclusive franchise to construct, maintain and operate a distribution system for furnishing electrical power within Majuro Atoll was granted to MEC by RepMar on March 8, 1983. Simultaneously, RepMar leased to MEC, for a nominal amount, a 12-megawatt power plant, a six million gallon capacity fuel storage facility, electrical transmission systems and related facilities on Majuro Atoll. The term of both the lease and the franchise is for a fifty year period commencing on December 1, 1996.

Pursuant to Cabinet Minute C.M. 162(93), RepMar leased to MEC, for a nominal amount, the right to operate and manage the power generating and distribution system in Jaluit Atoll effective November 1, 1993. The term of the lease is for a fifty year period commencing on December 1, 1996.

Through Cabinet action in October 2000, RepMar contracted MEC to develop, operate and maintain power generation systems on Wotje Atoll.

MEC'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 MEC 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. MEC has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

MEC considers utility and nonutility revenues and costs that are directly related to the generation, transmission and distribution of electricity and fuel sale 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 modifies certain other financial statement disclosure requirements.

(2) Summary of Significant Accounting Policies, Continued

To conform to the requirements of GASB Statement No. 34, equity is presented in the following net asset categories:

- Invested in capital assets - capital assets, net of accumulated depreciation and related debt, 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.

When both restricted and unrestricted resources are available for use for the same purpose, it is MEC's policy to use unrestricted resources first, then restricted resources as they are needed.

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 total 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.

Revenue Recognition

Sales of electricity are recorded as billed to customers on a monthly billing cycle basis. Unbilled revenues are not accrued as the most recent meter reading date approximates the end of the reporting period.

Revenue from fuel and propane sales is billed to customers on a daily basis based on the actual quantity of fuel and propane delivered.

Cash

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

For purposes of the statements of net deficiency and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2012 and 2011, cash was $686,696 and $592,436, respectively, and the corresponding bank balances were $897,749 and $1,028,757, respectively, of which $817,927 and $999,777, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, bank deposits in the amount of $817,927 and $981,536, respectively, were FDIC insured. MEC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, these deposits were exposed to custodial credit risk.

(2) Summary of Significant Accounting Policies, Continued

Receivables

All receivables are due from government agencies, businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for uncollectible 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 collectibility of these accounts and prior collection experience. Management determines the adequacy of the allowance for uncollectible accounts based upon review of the aged accounts receivable. The allowance is established through a provision for bad debts charged to expense.

Fuel and Supplies

Fuel and supplies are valued at the lower of cost (first-in, first-out) or market (net realizable value).

Plant and Nonutility Property

Plant and nonutility property with a cost that equals or exceeds $500 is capitalized. Such assets are stated at cost. Depreciation of plant and nonutility property and amortization of leasehold land and residences are calculated on the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Power plant engines	20 years
Plant and machinery	3 - 10 years
Vehicles	2 - 4 years
Leasehold improvements	20 years
Residences	20 years
Fences and seawalls	10 years
Leasehold land	20 years
Solar power system	15 years
Furniture and fixtures	3 - 5 years

Costs pertaining to distribution and line supplies are expensed during the year of installation as MEC considers the estimated useful lives of these supplies to be less than one year.

New Accounting Standards

During the year ended September 30, 2012, MEC implemented the following pronouncements:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MEC.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MEC.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MEC.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of MEC.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of MEC.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of MEC.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of MEC.

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.

(3) Fuel and Supplies

Fuel and supplies at September 30, 2012 and 2011, consist of the following:

	2012	2011
Distribution and power plant supplies	$ 1,589,438	$ 1,682,486
Fuel	126,446	7,199,602
Lubricants	24,381	90,812
	$ 1,740,265	$ 8,972,900

(4) Capital Assets

Capital asset activity for the years ended September 30, 2012 and 2011 was as follows:

	2012			
	October 1, 2011	Additions	Deletions	September 30, 2012
Utility Plant:				
Power plant engines	$ 15,995,292	$ -	$ -	$ 15,995,292
Plant and machinery	1,877,843	108,267	-	1,986,110
Solar power systems	1,110,417	-	-	1,110,417
Vehicles	1,038,244	130,225	(95,315)	1,073,154
Leasehold improvements	641,012	-	-	641,012
Residences	561,073	-	-	561,073
Fences and seawalls	371,702	-	-	371,702
Leasehold land	330,000	-	-	330,000
Furniture and fixtures	361,258	204,888	-	566,146
Nonutility Plant:				
LPG terminal	181,862	-	-	181,862
	22,468,703	443,380	(95,315)	22,816,768
Less accumulated depreciation and amortization	(14,833,479)	(1,226,284)	95,315	(15,964,448)
	7,635,224	(782,904)	-	6,852,320
Construction work-in-progress	22,700	419,128	-	441,828
	$ 7,657,924	$ (363,776)	$ -	$ 7,294,148

	2011			
	October 1, 2010	Additions	Deletions	September 30, 2011
Utility Plant:				
Power plant engines	$ 14,909,948	$ 1,085,344	$ -	$ 15,995,292
Plant and machinery	1,876,968	875	-	1,877,843
Solar power systems	1,110,417	-	-	1,110,417
Vehicles	1,023,244	15,000	-	1,038,244
Leasehold improvements	641,012	-	-	641,012
Residences	561,073	-	-	561,073
Fences and seawalls	371,702	-	-	371,702
Leasehold land	330,000	-	-	330,000
Furniture and fixtures	241,857	119,401	-	361,258
Nonutility Plant:				
LPG terminal	181,862	-	-	181,862
	21,248,083	1,220,620	-	22,468,703
Less accumulated depreciation and amortization	(13,503,492)	(1,329,987)	-	(14,833,479)
	7,744,591	(109,367)	-	7,635,224
Construction work-in-progress	977,273	224,054	(1,178,627)	22,700
	$ 8,721,864	$ 114,687	$ (1,178,627)	$ 7,657,924

(4) Capital Assets, Continued

MEC created a separate cash in bank account dedicated to repair and maintenance funds (R&M Fund), as required by the Subsidiary Loan Agreement between RepMar and the Asian Development Bank (ADB). Starting October 1, 2010, MEC made automatic $35,000 monthly transfers into the R&M Fund from its revenue accounts. Cash in the R&M Fund shall be used exclusively for repair, maintenance, procurement of spare parts, materials and equipment (and related labor costs) directly related to power generation and distribution. As of September 30, 2012 and 2011, the R&M fund has a balance of $34,980 and $53,085, respectively.

(5) Long-Term Debt

Long-term debt at September 30, 2012 and 2011 is as follows:

	2012	2011
On November 18, 1997, MEC entered into a loan agreement with the Federal Financing Bank (FFB) in the amount of $12.5 million for the construction of a new power plant, with loan repayments guaranteed by the Rural Utilities Service (RUS). MEC is required to submit drawdown requests to RUS for approval of loan advances. Interest rates are calculated based on the FFB rates at the date of the loan advances and range from 5.49% to 7.25% per annum. Originally, principal and interest are payable in quarterly installments of $273,770 through January 2, 2018. On June 22, 2012, RUS granted a two-year $2 million loan deferment giving MEC a two-year break from having to make payments to RUS. Effective June 22, 2012 through March 31, 2014, interest payments of $25,000 are due quarterly. Thereafter, quarterly payments of $299,121 are due. The loan will mature on September 30, 2019. The mortgage notes have been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MEC, and have been collateralized by a leasehold mortgage and security agreement over the assets of MEC. These notes are subject to certain coverage ratio requirements. MEC is not in compliance with these ratio requirements as of September 30, 2012 and 2011.	$ 5,357,703	$ 5,890,008
On September 8, 2010, MEC obtained a subsidiary loan from the ADB, through RepMar, of $10 million to pay off a bank loan. This loan will mature on May 31, 2034. Interest is calculated at 1.0% per annum through September 30, 2018 and at 1.5% per annum thereafter. Principal and interest are payable in monthly equal payments of $34,758.	8,881,388	9,227,663
Short-term loan renegotiated to mature on July 20, 2015. Interest is calculated at 7.5% per annum. Principal and interest are payable in monthly equal payments of $27,444 (see Note 6).	816,610	-
	15,055,701	15,117,671
Less current installments	(655,968)	(1,191,779)
Long-term debt	$ 14,399,733	$ 13,925,892

(5) Long-Term Debt, Continued

Changes in long-term debt during the years ended September 30, 2012 and 2011 are as follows:

	2012				
	Balance October 1, 2011	Additions/ Reclassification	Reductions	Balance September 30, 2012	Balance due in One Year
RUS loan	$ 5,890,008	$ -	$ (532,305)	$ 5,357,703	$ -
Commercial bank loan	-	3,577,014	(2,760,404)	816,610	277,556
Subsidiary loan	9,227,663	-	(346,275)	8,881,388	378,412
	$ 15,117,671	$ 3,577,014	$ (3,638,984)	$ 15,055,701	$ 655,968

	2011				
	Balance October 1, 2010	Additions	Reductions	Balance September 30, 2011	Balance due in One Year
RUS loan	$ 6,327,630	$ -	$ (437,622)	$ 5,890,008	$ 835,583
Commercial bank loan	8,494,897	-	(8,494,897)	-	-
Subsidiary loan	-	9,555,715	(328,052)	9,227,663	356,196
	$14,822,527	$ 9,555,715	$ (9,260,571)	$ 15,117,671	$ 1,191,779

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

Year ending September 30,	Principal	Interest	Total
2013	$ 655,968	$ 238,795	$ 894,763
2014	1,091,506	341,578	1,433,084
2015	1,497,782	402,180	1,899,962
2016	1,318,359	333,644	1,652,003
2017	1,383,205	268,798	1,652,003
2018-2022	3,976,079	614,775	4,590,854
2023-2027	1,964,148	313,452	2,277,600
2028-2032	2,117,025	160,575	2,277,600
2033-2035	1,051,629	17,815	1,069,444
	$ 15,055,701	$ 2,691,612	$ 17,747,313

(6) Short-Term Debt

During the year ended September 30, 2011, MEC obtained three ninety-day or less term loans with interest rates at 7.5% per annum from a financial institution to finance fuel purchases. On July 12, 2012, MEC and the financial institution agreed to extend the maturity of the short- term loan from September 20, 2012 to July 20, 2015 (see Note 5). Short-term debt outstanding as of September 30, 2011 was $3,577,014.

Changes in short-term debt during the year ended September 30, 2012 and 2011 are as follows:

2012			
Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012
$ 3,577,014	$ -	$ (3,577,014)	$ -

2011			
Balance October 1, 2010	Additions	Reductions	Balance September 30, 2011
$ 948,118	$ 11,000,000	$ (8,371,104)	$ 3,577,014

(7) Employee Retirement Plan

MEC has implemented a defined contribution retirement savings plan (the Plan) for its employees. Employees eighteen years and older are eligible upon one year of employment with MEC. Plan participants may contribute any amount of their salaries to be matched 100% by MEC up to 5% of base salaries. Withdrawal from the Plan occurs upon termination of employment, death, or financial hardship. Plan assets are held in a trust fund administered by a trustee in accordance with the trust agreement. Management has the authority to establish or amend Plan provisions and contribution requirements. MEC contributed $46,241 and $44,454 to Plan participant accounts during the years ended September 30, 2012 and 2011, respectively.

(8) Related Party Transactions

MEC is wholly-owned by RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. RepMar subscribes for electricity generated by MEC and is charged for electricity usage at substantially the same rates as those charged to commercial establishments. In addition, RepMar purchases fuel from MEC at the same commercial terms and conditions as afforded to third parties. MEC’s receivables from related parties are afforded more favorable payment terms than those extended to unrelated parties.

Pursuant to the Income Tax Act of 1989, as amended by the Income Tax Amendment Act of 1991, sales of electricity by public utility companies are exempt from gross revenue tax. MEC is therefore required to pay gross revenue tax on all revenue with the exception of electricity sales at the rate of 3%. As of September 30, 2012 and 2011, MEC is liable for gross revenue tax to RepMar amounting to $233,686 and $445,002, respectively.

(8) Related Party Transactions, Continued

Pursuant to the Import Duties (MEC Exemption) Act of 2008, enacted on October 6, 2008, MEC is exempt from paying import duty on all types of fuel imported into RepMar, including fuel imported for power generation and for commercial resale. Previously, pursuant to the Import Duties (Amendment) Act, 2005, no import duty was levied on residual fuel oils and diesel fuel imported by MEC solely for the purpose of power generation. MEC was, however, required to pay import duty on diesel fuel imported for commercial resale. As of September 30, 2012 and 2011, MEC is liable for import duties to RepMar amounting to $110,477 and $110,626, respectively, representing import duty owed prior to October 6, 2008.

Transactions for the years ended September 30, 2012 and 2011, and the related receivables from and payables to affiliates, are as follows:

	2012			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 4,334,341	$ 1,033,712	$1,664,002	$ 246,005
Kwajalein Atoll Joint Utilities Resources, Inc.	4,963,507	-	539,552	-
Majuro Water and Sewer Company, Inc.	475,548	1,014	666,612	1,389
Marshall Islands Social Security Administration	51,977	239,517	-	244,571
Majuro Resort, Inc.	638,792	51,889	577,087	57,257
Other	2,566,726	187,602	538,011	28,057
	$ 13,030,891	$ 1,513,734	$ 3,985,264	$ 577,279

	2011			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 3,701,402	$ 971,912	$ 1,372,869	$ 306,967
Kwajalein Atoll Joint Utilities Resources, Inc.	3,527,300	-	582,526	-
Majuro Water and Sewer Company, Inc.	393,100	1,272	326,490	4,896
Marshall Islands Social Security Administration	64,108	637,099	3,514	123,554
Majuro Resort, Inc.	554,438	104,526	1,365,271	57,275
Other	1,981,344	274,835	527,193	6,841
	$ 10,221,692	$ 1,989,644	$ 4,177,863	$ 499,533

Allowance for uncollectable accounts pertaining to receivables from affiliates amounted to $1,726,520 and $1,473,666 as of September 30, 2012 and 2011, respectively.

Changes in the advances from RepMar account during the years ended September 30, 2012 and 2011, are as follows:

	2012	2011
Balance at beginning of year	$ -	$ 764,961
Utility billings offset	-	(764,961)
	$ -	$ -

(8) Related Party Transactions, Continued

During the years ended September 30, 2012 and 2011, MEC received operating subsidies from RepMar of $874,944 and $862,243, respectively.

During the years ended September 30, 2012 and 2011, MEC deposited $165,182 and $495,545, respectively, into a RepMar bank account in accordance with the terms of a grant passed through RepMar during fiscal year 2009 from an international donor.

During the year ended September 30, 2012, MEC received a $2,000,000 advance from Marshall Islands Marine Resources Authority (MIMRA) payable one year from August 2, 2012 at no interest. In the memorandum of agreement between MEC and MIMRA, future collections from RepMar will be used to pay off the advance.

(9) Commitment and Contingencies

Commitment

MEC purchases petroleum products from Winson Oil International (HK) Ltd. (Winson) on a consignment basis whereby Winson continues to hold ownership and title to the product while it is held in storage at the MEC terminal storage tanks. Title and risk on the product remains with Winson until the product passes the boundary of the MEC terminal. The value of consignment petroleum products as of September 30, 2012 is approximately $7,579,986. MEC assumes responsibility for the proper and safe storage/handling of the product while under MEC storage. However, MEC carries insurance coverage on such consignment inventories.

On June 22, 2006, MEC entered into a five-year fuel supply contract with SK Networks Co., Ltd. commencing January 2007 through December 2011. Under the fuel supply contract, MEC's minimum purchase obligation shall be 13,000,000 U.S. gallons per year. MEC did not renew the fuel supply contract with SK Networks Co., Ltd. after its expiration.

Contingencies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of MEC as a going concern. Management acknowledges that it is currently dependent on RepMar for cash advances to fund operations and on its affiliates to pay for actual services rendered in order to maintain MEC as a going concern. Should RepMar and its affiliates choose to discontinue cash advances and payment for services rendered, MEC management may have to consider alternative measures including, among other possibilities, an increase in electricity and fuel rates to maintain MEC as a going concern.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net assets at September 30, 2012, is dependent upon continued operations of MEC, which in turn is dependent upon MEC's ability to meet its future debt service requirements, and the success of future operations. Management believes that actions presently being taken to revise MEC's operating requirements, which include entering into new fuel supply contracts with fishing companies, aggressively collecting past due accounts, and maintaining the approved pricing template allowing MEC to automatically adjust tariffs for movements in world oil prices, provide the opportunity for MEC to continue as a going concern.

(9) Commitment and Contingencies, Continued

In the efforts to maintain MEC as a going concern, MEC management implemented its Comprehensive Recovery Plan (CRP) during fiscal year 2010. The CRP is a three (3) year strategic plan or road map designed to a) Strengthen MEC and Energy Sector Governance; (b) Improve Organizational Policies, Performance and Capacity; and (c) Strengthen and Stabilize Company Finances.

MEC is a party to several legal proceedings arising from its operations; however, no provision for any liability was made in the accompanying financial statements due to the uncertainty of the legal proceeding outcomes. Although the financial exposure is yet to be determined, MEC's management believes that the provision for any liability will be minimal.

(10) Risk Management

MEC 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. MEC has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Insurance proceeds of $3,410,336 received in 2007 for fire damages to MEC’s power plant building and engines were netted against estimated repair costs to put the assets back into service. Accrued building and engine repairs expense as of September 30, 2012 and 2011 amounted to $1,930,394 and $2,140,822, respectively.

(11) Subsequent Events

On January 29, 2013, the Board of Directors of MIMRA approved the write-off of the $2,000,000 advance to MEC. The advance is to be applied against shortfall in fiscal year 2013 budgeted utility billings for RepMar and the Ministry of Health.

MARSHALLS ENERGY COMPANY, INC.

Statement of Revenues, Expenses and Changes in Net Deficiency by Source
Year Ended September 30, 2012

	Generation	Distribution	Tank Farm	Jaluit	Wotje	Solar	MEC Gas	Admin.	TOTAL
Operating revenues:									
Fuel, propane and lube sales	$ -	$ -	$ 30,520,949	$ 11,949	$ 2,727	$ -	$ 701,372	$ -	$ 31,236,997
Cost of sales	-	-	28,267,421	-	-	-	357,265	-	28,624,686
Gross profit on sales	-	-	2,253,528	11,949	2,727	-	344,107	-	2,612,311
Electric and service billings	20,078,829	-	-	439,484	161,948	112,490	4,340	-	20,797,091
Service and other income	8,535	119,732	42,235	2,215	75	17,000	-	50,030	239,822
Less provision for doubtful accounts	(2,215,671)	-	-	-	-	-	-	-	(2,215,671)
Total electricity sales and other income	17,871,693	119,732	42,235	441,699	162,023	129,490	4,340	50,030	18,821,242
Total net operating revenue	17,871,693	119,732	2,295,763	453,648	164,750	129,490	348,447	50,030	21,433,553
Operating expenses:									
Advertising	50	-	-	-	-	-	-	8,361	8,411
Auto POL and maintenance	44,825	81,280	6,934	629	1,236	12	355	52,399	187,670
Bank charges	325	-	150	-	-	-	-	5,090	5,565
Communications	18,400	18,979	873	600	300	-	2,217	39,589	80,958
Depreciation and amortization	1,036,735	54,184	21,628	159	2,336	-	9,394	101,848	1,226,284
Donations	420	20	-	20	-	-	40	3,940	4,440
Entertainment	494	1,148	228	561	170	-	-	36,517	39,118
Equipment rental	660	100	-	15,152	-	-	-	320	16,232
Freight and handling	60,511	38,824	-	51,587	49,373	35	-	6,543	206,873
Fuel and lubes	13,130,929	25,979	-	195,290	245,699	-	-	-	13,597,897
Gross revenue tax	72	3,254	771,808	252	84	9	15,394	147,433	938,306
Import tax	33,367	17,351	555	-	-	-	90	203	51,566
Insurance	147,722	19,916	75,234	7,474	7,474	14	2,491	13,695	274,020
Lease rental	4,200	40,469	-	18,925	5,669	-	-	4,125	73,388
Membership and other fees	1,655	1,715	135	-	-	-	-	37,105	40,610
Office	22,530	7,211	16,854	1,263	822	6,400	1,308	52,051	108,439
Professional and consulting fees	-	-	-	-	-	-	-	69,794	69,794
Repairs and maintenance	551,627	651,557	23,881	66,055	4,770	160	185	12,218	1,310,453
Safety and uniforms	11,293	7,195	1,334	1,371	1,885	-	331	855	24,264
Salaries, wages and benefits	1,146,166	614,010	127,068	190,416	140,524	72,850	43,030	854,287	3,188,351
Security services	20,074	-	21,260	-	-	-	12,828	-	54,162
Staff training	6,505	3,770	-	-	-	29	-	45,582	55,886
Travel	22,393	7,622	13,902	9,478	525	-	-	85,045	138,965
Utility	87,801	3,818	254	9,096	-	-	-	82,926	183,895
Total operating expenses	16,348,754	1,598,402	1,082,098	568,328	460,867	79,509	87,663	1,659,926	21,885,547
Operating income (loss)	1,522,939	(1,478,670)	1,213,665	(114,680)	(296,117)	49,981	260,784	(1,609,896)	(451,994)
Nonoperating income (expense):									
RepMar subsidy	-	-	-	474,176	400,768	-	-	-	874,944
Other Grants	511,000	178,697	-	-	-	-	-	-	689,697
Reversal of accrual for buildings and engine re	-	-	-	-	-	-	-	210,428	210,428
Payments to RepMar	-	-	-	-	-	-	-	(165,182)	(165,182)
Interest expense	(214,122)	(3,517)	(147,404)	-	-	-	-	(505,254)	(870,297)
	296,878	175,180	(147,404)	474,176	400,768	-	-	(460,008)	739,590
Capital contributions - ADB	418,072	-	-	-	-	-	-	-	418,072
Change in net deficiency	$ 2,237,889	$ (1,303,490)	$ 1,066,261	$ 359,496	$ 104,651	$ 49,981	$ 260,784	$ (2,069,904)	$ 705,668

See accompanying independent auditors' report.