

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2002

INDEPENDENT AUDITORS' REPORT

Board of Directors
Kwajalein Atoll Development Authority:

We have audited the accompanying financial statements of the Kwajalein Atoll Development Authority (KADA), a component unit of the Republic of the Marshall Islands, as of September 30, 2002, and for the year then ended. These financial statements are the responsibility of KADA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of inadequacies in the accounting records and internal control, we were unable to form an opinion regarding accounts payable of the Governmental Fund Types as of September 30, 2002. Furthermore, in our judgment, the above balances affect the results of operations for the year ended September 30, 2002.

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 that accounts payable were fairly stated for the Governmental Fund Types, as discussed in the third paragraph above, such financial statements present fairly, in all material respects, the financial position of KADA, as of September 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of KADA taken as a whole. The combining financial statements of the Component Units - Proprietary Funds (pages 16 through 18) are presented for purposes of additional analysis and are not a required part of the financial statements of KADA. These combining financial statements are also the responsibility of the management of KADA. Such additional information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2003, on our consideration of KADA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte + Touche

May 21, 2003

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Combined Balance Sheet
All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 2002
(With comparative totals as of September 30, 2001)

	Governmental Fund Types		Accounts Groups	Totals Primary	Component Units	Totals Reporting Entity (Memorandum Only)	
	General	Capital Projects	General Fixed Assets	Government (Memorandum Only)	Proprietary Funds	2002	2001
ASSETS							
Cash	\$ 361,199	\$ -	\$ -	\$ 361,199	\$ 207,756	\$ 568,955	\$ 54,874
Investments (note 3)	-	100,000	-	100,000	-	100,000	100,000
Receivables, net:							
Utility services	-	-	-	-	551,569	551,569	564,287
Other	1,874,030	-	-	1,874,030	119,975	1,994,005	1,957,552
Due from affiliates (note 4)	-	-	-	-	373,750	373,750	-
Due from other funds	1,166,383	11,541,538	-	12,707,921	13,331	12,721,252	11,375,796
Due from other governments	24,817	-	-	24,817	-	24,817	288,659
Prepaid items	42,436	-	-	42,436	-	42,436	42,436
Inventories	-	-	-	-	188,259	188,259	205,682
Investment in fixed assets, net of accumulated depreciation (note 2)	-	-	1,188,353	1,188,353	9,879,491	11,067,844	13,935,158
	<u>\$ 3,468,865</u>	<u>\$ 11,641,538</u>	<u>\$ 1,188,353</u>	<u>\$ 16,298,756</u>	<u>\$ 11,334,131</u>	<u>\$ 27,632,887</u>	<u>\$ 28,524,444</u>
LIABILITIES AND FUND EQUITY (DEFICIENCY)							
Liabilities:							
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ 42,085	\$ 42,085	\$ 68,179
Accounts payable	430,013	555,219	-	985,232	759,293	1,744,525	1,734,385
Accrued liabilities	408,085	-	-	408,085	357,168	765,253	1,291,814
Due to affiliates (note 4)	-	-	-	-	416,157	416,157	-
Due to other funds	11,541,538	13,331	-	11,554,869	1,166,383	12,721,252	11,375,796
Note payable	132,782	-	-	132,782	-	132,782	-
Total liabilities	<u>12,512,418</u>	<u>568,550</u>	<u>-</u>	<u>13,080,968</u>	<u>2,741,086</u>	<u>15,822,054</u>	<u>14,470,174</u>
Fund equity (deficiency):							
Investment in general fixed assets	-	-	1,188,353	1,188,353	-	1,188,353	1,387,259
Contributed capital	-	-	-	-	100,000	100,000	100,000
Retained earnings	-	-	-	-	8,493,045	8,493,045	11,536,006
Fund balance (deficit):							
Reserved for related assets (note 2)	3,107,666	11,641,538	-	14,749,204	-	14,749,204	13,242,047
Reserved for encumbrances	-	476,512	-	476,512	-	476,512	476,612
Unreserved (deficit):							
Undesignated	(12,151,219)	(1,045,062)	-	(13,196,281)	-	(13,196,281)	(12,687,654)
Total fund equity (deficiency)	<u>(9,043,553)</u>	<u>11,072,988</u>	<u>1,188,353</u>	<u>3,217,788</u>	<u>8,593,045</u>	<u>11,810,833</u>	<u>14,054,270</u>
Contingencies (note 5)	<u>\$ 3,468,865</u>	<u>\$ 11,641,538</u>	<u>\$ 1,188,353</u>	<u>\$ 16,298,756</u>	<u>\$ 11,334,131</u>	<u>\$ 27,632,887</u>	<u>\$ 28,524,444</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Combined Statement of Revenues, Expenditures and Changes
in Fund Balances (Deficit) - All Governmental Fund Types
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Governmental Fund Types		Totals Reporting Entity (Memorandum Only)	
	General	Capital Projects	2002	2001
Revenues:				
Compact funding	\$ 28,500	\$ 1,871,500	\$ 1,900,000	\$ 4,430,400
Interest	47	-	47	4,955
Other	210	33,270	33,480	43,708
	<u>28,757</u>	<u>1,904,770</u>	<u>1,933,527</u>	<u>4,479,063</u>
Total revenues				
Expenditures:				
Administration and finance	338,535	-	338,535	249,133
Capital projects	-	596,562	596,562	553,028
Debt service:				
Principal retirement	-	-	-	3,956,006
Interest and fiscal charges	-	-	-	151,590
	<u>338,535</u>	<u>596,562</u>	<u>935,097</u>	<u>4,909,757</u>
Total expenditures				
Revenues (under) over expenditures	<u>(309,778)</u>	<u>1,308,208</u>	<u>998,430</u>	<u>(430,694)</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	4,106,607
Operating transfers out	-	-	-	(4,106,607)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses), net				
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(309,778)</u>	<u>1,308,208</u>	<u>998,430</u>	<u>(430,694)</u>
Fund balances (deficit) at beginning of year	<u>(8,733,775)</u>	<u>9,764,780</u>	<u>1,031,005</u>	<u>1,461,699</u>
Fund balances (deficit) at end of year	<u>\$ (9,043,553)</u>	<u>\$ 11,072,988</u>	<u>\$ 2,029,435</u>	<u>\$ 1,031,005</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - General Fund
Year Ended September 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Compact funding	\$ 28,500	\$ 28,500	\$ -
Other	<u>-</u>	<u>257</u>	<u>257</u>
Total revenues	<u>28,500</u>	<u>28,757</u>	<u>257</u>
Expenditures:			
Salaries and wages	176,092	175,335	757
Repairs and maintenance	-	43,759	(43,759)
Interest	-	41,345	(41,345)
Withholding tax contributions	14,161	16,632	(2,471)
Employee benefits	16,300	16,050	250
Office equipment	4,500	13,531	(9,031)
Travel	10,000	10,463	(463)
Communications	7,000	9,027	(2,027)
Office supplies	5,000	5,000	-
Utilities	9,600	4,949	4,651
Honorarium	720	695	25
Miscellaneous	<u>500</u>	<u>1,749</u>	<u>(1,249)</u>
Total expenditures	<u>243,873</u>	<u>338,535</u>	<u>(94,662)</u>
Deficiency of revenues under expenditures	(215,373)	(309,778)	(94,405)
Deficit at beginning of year	<u>(8,733,775)</u>	<u>(8,733,775)</u>	<u>-</u>
Deficit at end of year	<u>\$ (8,949,148)</u>	<u>\$ (9,043,553)</u>	<u>\$ (94,405)</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Combined Statement of Revenues, Expenses and Changes
in Retained Earnings - Discretely Presented Component Units - Proprietary Funds
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	<u>2002</u>	<u>2001</u>
Operating revenues:		
Electric and service billings	\$ 2,170,054	\$ 1,863,077
Water	261,152	243,100
Other	<u>157,169</u>	<u>134,344</u>
Total operating revenues	<u>2,588,375</u>	<u>2,240,521</u>
Operating expenses:		
Fuel and lubricants	1,649,672	1,670,112
Depreciation	1,042,587	794,395
Salaries, wages and benefits	796,462	723,713
Supplies and materials	222,870	204,899
Operations and maintenance	189,540	178,350
Travel and transportation	138,761	163,914
Rental	66,806	65,595
Communications	66,105	83,225
Contractual services	18,780	69,423
Equipment	337	4,014
Bad debts	-	145,488
Miscellaneous	<u>58,134</u>	<u>71,873</u>
Total operating expenses	<u>4,250,054</u>	<u>4,175,001</u>
Operating loss	<u>(1,661,679)</u>	<u>(1,934,480)</u>
Nonoperating revenues (expenses):		
Capital contributions (note 4)	1,326,763	2,423,707
Operating subsidies (note 4)	498,000	550,000
Capital outlay (note 4)	(524,521)	-
Interest expense	(3,499)	-
Loss from disposal of fixed assets	<u>(2,678,025)</u>	<u>-</u>
Total nonoperating revenues (expenses), net	<u>(1,381,282)</u>	<u>2,973,707</u>
Net (loss) income	(3,042,961)	1,039,227
Retained earnings at beginning of year	<u>11,536,006</u>	<u>10,496,779</u>
Retained earnings at end of year	<u>\$ 8,493,045</u>	<u>\$ 11,536,006</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Combined Statement of Cash Flows -
Discretely Presented Component Units - Proprietary Funds
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Operating loss	\$(1,661,679)	\$(1,934,480)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Loss from disposal of fixed assets	2,678,025	-
Depreciation	1,042,587	794,395
Bad debts	-	145,488
(Increase) decrease in assets:		
Utility services receivables	12,718	178,782
Other receivables	125,248	(155,359)
Due from other funds	(167,500)	-
Due from other governments	57,592	(65,000)
Inventories	17,423	(44,565)
Increase (decrease) in liabilities:		
Accounts payable	535,645	122,433
Accrued liabilities	(52,930)	243,537
Due to other funds	44,096	47,974
	<u>2,631,225</u>	<u>(666,795)</u>
Cash flows from noncapital financing activities:		
Operating subsidies (note 4)	498,000	550,000
(Decrease) increase in bank overdraft	(26,094)	68,179
Interest payments	(3,499)	-
	<u>468,407</u>	<u>618,179</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of fixed assets	(3,730,229)	(2,442,663)
Capital contributions (note 4)	1,326,763	2,423,707
Capital outlay (note 4)	(524,521)	-
	<u>(2,927,987)</u>	<u>(18,956)</u>
Net increase (decrease) in cash	171,645	(67,572)
Cash at beginning of year	<u>36,111</u>	<u>103,683</u>
Cash at end of year	<u>\$ 207,756</u>	<u>\$ 36,111</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Notes to Financial Statements September 30, 2002

(1) Organization

The Kwajalein Atoll Development Authority (KADA), a component unit of the Republic of the Marshall Islands (RepMar), was established pursuant to Public Law 1989-36, the Kwajalein Atoll Development Authority Act of 1989 of the Republic of the Marshall Islands. KADA was established to develop and implement programs and projects for the social and economic betterment of the inhabitants of Kwajalein Atoll. KADA's powers and functions are vested in and exercised by a Board of Directors, who are appointed by the President of RepMar.

(2) Summary of Significant Accounting Policies

KADA's financial statements are incorporated into the general purpose financial statements of RepMar as a component unit. The financial statements of KADA have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of KADA's accounting policies are described below.

A. Reporting Entity

As required by GAAP, the financial statements of KADA present KADA and its component units; entities for which KADA is considered to be financially accountable. Discretely presented component units are reported in separate columns in the combined financial statements to emphasize that they are legally separate from KADA. 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. KADA's component units have implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Discretely Presented Components Units

A. Kwajalein Atoll Joint Utilities Resources, Inc.

The Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), was created by KADA's Board of Directors on October 13, 1989 and was incorporated under the laws of the Republic of the Marshall Islands on September 1, 1990, to generate and distribute utilities on the island of Ebeye. On October 19, 1990, the Board of Directors of KADA authorized the transfer of \$14,075,046 in utility plant and equipment to KAJUR. KAJUR has sold 100,000 shares of \$1 par value common stock to KADA, which is the sole owner of common stock of KAJUR.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2002

(2) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Discretely Presented Components Units, Continued

A. Kwajalein Atoll Joint Utilities Resources, Inc., Continued

On October 28, 1999, RepMar and KADA awarded a twenty-four month management contract to the American Samoa Power Authority (ASPA) to assume operational control of KAJUR. The term of the contract is from November 2, 1999 to October 31, 2001 and conditions of the contract are included in the management contract between RepMar, KADA and ASPA. On November 9, 2001, the Cabinet of RepMar approved the extension of the management contract for an additional two years with the same conditions.

B. Housing Division

The Housing Division accounts for all assets and financial transactions related to KADA's activities designated to be self-sufficient and render services to the public on a user charge basis. The Housing Division's main activities are the leasing of real property on the island of Ebeye and the loaning of funds to citizens residing on Ebeye for housing improvement projects.

Complete financial statements for KAJUR may be obtained from the Office of the Auditor-General:

P.O. Box 245
Majuro, Marshall Islands 96960

B. Fund Accounting

KADA uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Account groups are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

In the accompanying financial statements, KADA's funds are classified into one category: governmental. This category, in turn, is divided into separate "fund types".

Governmental funds are used to account for all or most of KADA's general activities, including the acquisition or construction of general fixed assets (capital projects funds). The general fund is used to account for general governmental activities of KADA not accounted for in other funds.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2002

(2) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included in the balance sheet. Operating statements of these funds present increases (i.e., revenue and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

D. Budgetary Process

In accordance with its enabling legislation, prior to the commencement of each fiscal year, KADA will prepare an operating budget for the ensuing fiscal year. This budget is considered by the Board of Directors and sets financial parameters within which KADA must operate. All operating budget appropriations lapse at year end. Project length financial plans are adopted for all capital projects.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable budget, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

E. Cash

For the purposes of the combined balance sheet and combined statement of cash flows, cash includes cash in checking and savings accounts. As of September 30, 2002, the carrying amount of KADA's cash was \$568,955 and the corresponding bank balance was \$579,504. Of the bank balance amount, \$324,524 is maintained in FDIC insured banks subject to \$100,000 coverage as of September 30, 2002. The Republic of the Marshall Islands does not require collateralization of its cash accounts.

F. Receivables

KAJUR provides electric services to customers 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 collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to operating expenses which amounted to \$2,389,393 as of September 30, 2002. Receivables are not collateralized.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2002

(2) Summary of Significant Accounting Policies, Continued

F. Receivables, Continued

Advances made to landowners of Ebeye and the Northern Islands are recorded as other receivables. The advances are uncollateralized, non-interest bearing and are not anticipated to be realized within the ensuing fiscal year. The advances have thus been reserved for as related assets within fund balance.

G. Inventories

Inventories of fuel and supplies of KAJUR are stated at the lower of cost (first-in, first-out) or market (net realizable value). Bulk fuel inventories are held for power plant use.

H. Prepaid Items

Payments made to vendors or persons for services that will benefit periods beyond September 30, 2002, are recorded as prepaid items.

I. Risk Management

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

J. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Fixed assets purchased within the proprietary funds are reported as assets within those funds and, accordingly are included in their balance sheet.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are normally not capitalized. These assets are immovable and are of value only to KADA.

Depreciation of assets in the General Fixed Assets Account Group and for proprietary funds is computed using the straight-line method.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2002

(2) Summary of Significant Accounting Policies, Continued

J. Fixed Assets, Continued

KADA's investment in fixed assets as of September 30, 2002, is as follows:

	<u>Estimated Useful Life</u>	<u>General Fixed Assets Account Group</u>	<u>Component Units Proprietary Funds</u>
Utilities plant and equipment	20 - 25 years	\$ -	\$ 13,771,045
Buildings and site costs	6 - 20 years	3,808,060	1,538,292
Major equipment	2 - 8 years	1,123,422	342,521
Other equipment	3 - 6 years	<u>1,930,919</u>	<u>17,196</u>
		6,862,401	15,669,054
Less accumulated depreciation		<u>(5,674,048)</u>	<u>(6,492,999)</u>
		1,188,353	9,176,055
Construction in progress		<u>-</u>	<u>703,436</u>
		<u>\$ 1,188,353</u>	<u>\$ 9,879,491</u>

KADA's policy is to omit construction in progress within the General Fixed Assets Account Group. Costs incurred in the construction of major capital facilities are recorded within the General Fixed Assets Account Group upon completion of the project.

K. Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The liability for sick pay benefits is unknown as of September 30, 2002.

L. Fund Balance Reserves and Designation

KADA's fund balance reserves represent those portions of fund balance (1) not available for appropriation or (2) legally segregated for a specific future use. In the accompanying combined balance sheet, reserves for related assets such as equity investments and prepaid items are examples of the former. Reserves for encumbrances are examples of the latter.

The reserve for related assets at September 30, 2002, is represented by the following assets.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2002

(2) Summary of Significant Accounting Policies, Continued

L. Fund Balance Reserves and Designation, Continued

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Investments	\$ -	\$ 100,000	\$ 100,000
Other receivables	1,874,030	-	1,874,030
Due from other funds	1,166,383	11,541,538	12,707,921
Due from other governments	24,817	-	24,817
Prepaid items	<u>42,436</u>	<u>-</u>	<u>42,436</u>
	<u>\$ 3,107,666</u>	<u>\$ 11,641,538</u>	<u>\$ 14,749,204</u>

M. Contributed Capital

Contributed capital is recorded in component units - proprietary funds that have issued common stock. Contributed capital of KADA's component units - proprietary funds represents the purchase of common stock by KADA (\$100,000 in KAJUR).

N. Memorandum Only - Total Columns

Total columns on the combined financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present the financial position or results of operations in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

O. 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, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

(3) Investments

Investments of the capital projects fund consist of 100,000 shares of \$1 par value common stock in KAJUR, a component unit of KADA. As this investment is not expected to be realized in the ensuing fiscal year, it has been reserved for as a related asset within fund balance.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2002

(3) Investments, Continued

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which securities are held by KADA or its agent in KADA's name. Category 2 includes uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in KADA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in KADA's name. All of KADA's investments are classified as Category 2.

(4) Related Party Transactions

KAJUR is affiliated with ASPA, a company with whom RepMar and KADA have contracted to manage its operations. Related management fee expense is incurred by RepMar.

KAJUR utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions for the year ended September 30, 2002 and the related receivable and payable balances as of September 30, 2002, are as follows:

	<u>Expenses</u>	<u>Receivable</u>	<u>Payable</u>
American Samoa Power Authority (ASPA)	\$ 101,943	\$ 167,500	\$ 102,472
Marshall Islands Social Security Administration	66,948	-	225,034
Marshall Islands National Telecommunications Authority	65,635	-	9,745
RepMar	<u>-</u>	<u>206,250</u>	<u>78,906</u>
	<u>\$ 234,526</u>	<u>\$ 373,750</u>	<u>\$ 416,157</u>

The management contract (see note 2A) between RepMar, KADA and ASPA, requires RepMar and KADA to make working capital available for KAJUR's operations. During the year ended September 30, 2002, RepMar made \$498,000 available for this purpose. This amount is recorded as operating subsidies in the accompanying financial statements.

As of September 30, 2002, KADA and KAJUR maintained demand deposit accounts with a related financial institution in the amounts of \$235,242 and \$9,077, respectively.

On October 8, 1999, RepMar entered into a loan agreement with the Asian Development Bank for the Ebeye Health and Infrastructure Project. Under the terms of the loan agreement, loan funds are to be made available for the rehabilitation and expansion of the existing water supply and sewerage systems on Ebeye Island, and the upgrading of Ebeye's power generation and distribution system. During the year ended September 30, 2002, RepMar made available to KAJUR loan funds in the amount of \$83,091 as capital grants in accordance with the terms and conditions of the loan agreement. KAJUR is under no obligation to repay these amounts to RepMar.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Notes to Financial Statements September 30, 2002

(4) Related Party Transactions, Continued

KAJUR received additional capital grants from ASPA through a grant award from the U.S. Department of the Interior (DOI). During the year ended September 30, 2002, \$868,672 was received by KAJUR for the funding of equipment and infrastructure projects related to these grants. Additionally, KAJUR received \$375,000 in matching funds related to these grants from RepMar. During the year ended September 30, 2002, KAJUR refurbished a school building funded by a DOI grant amounting to \$524,521 which was transferred to RepMar.

(5) Contingencies

KADA participated in one federally assisted grant from the U.S. Department of the Interior in fiscal year 2002. Federally assisted grants can be subject to financial and compliance audits to ascertain if federal laws and guidelines have been followed. Expenditures of \$1,031,115 were questioned in the fiscal year 2002 Single Audit and expenditures of \$1,527,088 were questioned in prior years Single Audits. Additionally, the United States Department of the Interior, Office of the Inspector General, in its audit report "Financial Assistance Under Section 211 of the Compact of Free Association, Republic of the Marshall Islands", dated January 17, 1990, has questioned \$1,523,430 related to a grant from the U.S. Department of the Interior, and the United States Department of the Interior, Office of Insular Affairs, in a memorandum dated March 11, 1996, has questioned \$565,471 related to financial assistance for the Ebeye Health Center and Causeway Projects. If these costs are ultimately denied, the General Fund could be charged for the necessary reimbursement to the grantor agency.

The Ebje Ruktok/Rukjenlein Fishing Company (ERRFC), a former Component Unit – Proprietary Fund of KADA, was incorporated under the laws of the Republic of the Marshall Islands on August 21, 1991. ERRFC is not incorporated into the 2002 financial statements of KADA. On March 12, 1992, ERRFC obtained a loan from the Republic of the Marshall Islands (RepMar) in an amount equivalent to 3,179,000 Special Drawing Rights (Special Drawing Rights approximated 0.71 U.S. dollars (\$) at September 30, 1997). This loan bears interest at a fixed rate of 8.50% per annum on the outstanding principal balance. The loan is a subsidiary of a loan agreement dated November 28, 1991 between the Asian Development Bank and RepMar. As of September 30, 1997, ERRFC had drawn \$2,588,788 against this loan and incurred \$552,713 in accrued interest payable. Management of KADA believes that ERRFC has been dissolved and that the loan payable to RepMar has been liquidated through the transfer of assets to RepMar. RepMar's concurrence with this arrangement has not been received. No provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

KAJUR depends on KADA and RepMar for cash and noncash funding to continue its operations. The continuation of KAJUR's operations is dependent upon future financial support from KADA and RepMar and/or significant improvements in operations.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY
COMPONENT UNITS - PROPRIETARY FUNDS

Combining Balance Sheet
September 30, 2002

	<u>Kwajalein Atoll Joint Utilities Resources, Inc.</u>	<u>Housing Division</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash	\$ 9,377	\$ 198,379	\$ 207,756
Receivables, net:			
Utility services	551,569	-	551,569
Other	40,986	78,989	119,975
Due from affiliate	373,750	-	373,750
Due from other funds	-	13,331	13,331
Inventories	188,259	-	188,259
Fixed assets, net	<u>8,769,729</u>	<u>1,109,762</u>	<u>9,879,491</u>
	<u>\$ 9,933,670</u>	<u>\$ 1,400,461</u>	<u>\$ 11,334,131</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Bank overdraft	\$ 42,085	\$ -	\$ 42,085
Accounts payable	759,293	-	759,293
Accrued liabilities	340,334	16,834	357,168
Due to affiliate	416,157	-	416,157
Due to other funds	-	1,166,383	1,166,383
Total liabilities	<u>1,557,869</u>	<u>1,183,217</u>	<u>2,741,086</u>
Fund balances:			
Contributed capital	100,000	-	100,000
Retained earnings	<u>8,275,801</u>	<u>217,244</u>	<u>8,493,045</u>
Total fund balances	<u>8,375,801</u>	<u>217,244</u>	<u>8,593,045</u>
	<u>\$ 9,933,670</u>	<u>\$ 1,400,461</u>	<u>\$ 11,334,131</u>

See Accompanying Independent Auditors' Report.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY
COMPONENT UNITS - PROPRIETARY FUNDS

Combining Statement of Revenues, Expenses and Changes in Retained Earnings
Year Ended September 30, 2002

	Kwajalein Atoll Joint Utilities Resources, Inc.	Housing Division	Totals
Operating revenues:			
Electric and service billings	\$ 2,170,054	\$ -	\$ 2,170,054
Water	261,152	-	261,152
Other	4,725	152,444	157,169
	<u>2,435,931</u>	<u>152,444</u>	<u>2,588,375</u>
Total operating revenues			
Operating expenses:			
Fuel and lubricants	1,649,436	236	1,649,672
Depreciation	983,061	59,526	1,042,587
Salaries, wages and benefits	709,934	86,528	796,462
Supplies and materials	213,048	9,822	222,870
Operations and maintenance	189,540	-	189,540
Travel and transportation	138,761	-	138,761
Rental	66,503	303	66,806
Communications	65,635	470	66,105
Contractual services	18,780	-	18,780
Equipment	337	-	337
Miscellaneous	42,412	15,722	58,134
	<u>4,077,447</u>	<u>172,607</u>	<u>4,250,054</u>
Total operating expenses			
Operating loss	<u>(1,641,516)</u>	<u>(20,163)</u>	<u>(1,661,679)</u>
Nonoperating revenues (expenses):			
Capital contributions	1,326,763	-	1,326,763
Operating subsidies	498,000	-	498,000
Capital outlay	(524,521)	-	(524,521)
Interest expense	(3,499)	-	(3,499)
Loss from disposal of fixed assets	(2,678,025)	-	(2,678,025)
	<u>(1,381,282)</u>	<u>-</u>	<u>(1,381,282)</u>
Total nonoperating revenues (expenses)			
Net loss	<u>(3,022,798)</u>	<u>(20,163)</u>	<u>(3,042,961)</u>
Retained earnings at beginning of year	<u>11,298,599</u>	<u>237,407</u>	<u>11,536,006</u>
Retained earnings at end of year	<u>\$ 8,275,801</u>	<u>\$ 217,244</u>	<u>\$ 8,493,045</u>

See Accompanying Independent Auditors' Report.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY
COMPONENT UNITS - PROPRIETARY FUNDS

Combining Statement of Cash Flows
Year Ended September 30, 2002

	Kwajalein Atoll Joint Utilities Resources, Inc.	Housing Division	Totals
Cash flows from operating activities:			
Operating loss	\$ (1,641,516)	\$ (20,163)	\$ (1,661,679)
Adjustments to reconcile operating loss to net cash (used for) provided by operating activities:			
Loss from disposal of fixed assets	2,678,025	-	2,678,025
Depreciation	983,061	59,526	1,042,587
(Increase) decrease in assets:			
Utility services receivables	12,718	-	12,718
Other receivables	(12,502)	137,750	125,248
Due from other governments	57,592	-	57,592
Due from other funds	(167,500)	-	(167,500)
Inventories	17,423	-	17,423
Increase (decrease) in liabilities:			
Accounts payable	535,645	-	535,645
Accrued liabilities	(52,930)	-	(52,930)
Due to other funds	-	44,096	44,096
	2,410,016	221,209	2,631,225
Net cash (used for) provided by operating activities			
Cash flows from noncapital financing activities:			
Operating subsidies	498,000	-	498,000
Decrease in bank overdraft	(26,094)	-	(26,094)
Interest payments	(3,499)	-	(3,499)
	468,407	-	468,407
Net cash provided by noncapital financing activities			
Cash flows from capital and related financing activities:			
Acquisition and construction of fixed assets	(3,686,140)	(44,089)	(3,730,229)
Capital contributions	1,326,763	-	1,326,763
Capital outlay	(524,521)	-	(524,521)
	(2,883,898)	(44,089)	(2,927,987)
Net cash used for capital and related financing activities			
Net (decrease) increase in cash	(5,475)	177,120	171,645
Cash at beginning of year	14,852	21,259	36,111
Cash at end of year	\$ 9,377	\$ 198,379	\$ 207,756

See Accompanying Independent Auditors' Report.