

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), a component unit of the Republic of the Marshall Islands, as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of KAJUR's management. Our responsibility is to express an opinion on these financial statements based on our audits.

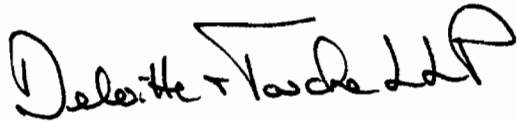
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KAJUR's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the statements of net assets of KAJUR as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended, present fairly, in all material respects, the financial position of KAJUR as of September 30, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note 2 to the accompanying financial statements, KAJUR adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The Management's Discussion and Analysis on pages 3 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of KAJUR's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2005, on our consideration of KAJUR's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink, appearing to read "Deloitte & Touche LLP". The signature is stylized and cursive, with a large, sweeping initial letter 'D'.

April 6, 2005

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis
Year Ended September 30, 2003

This section of the Kwajalein Atoll Joint Utilities Resources (KAJUR) annual financial reports presents our discussion and analysis of KAJUR's financial performance for the year that ended on September 30, 2003. Please read it in conjunction with the financial statements, which follow this section. The following table summarizes the financial condition and operations of KAJUR for fiscal years 2003 and 2002.

Assets	<u>2003</u>	<u>2002</u>
Utility plant, net	\$ 10,790,548	\$ 9,377,131
Current assets	<u>526,998</u>	<u>1,163,941</u>
	\$ <u>11,317,546</u>	\$ <u>10,541,072</u>
Liabilities and Net Assets		
Current liabilities	\$ 1,879,843	\$ 1,557,869
Net assets	<u>9,437,703</u>	<u>8,983,203</u>
	\$ <u>11,317,546</u>	\$ <u>10,541,072</u>
Revenues, Expenses and Change in Net assets		
Utility operations:		
Operating revenues	\$ 2,459,775	\$ 2,435,931
Operating expenses	<u>5,055,119</u>	<u>4,077,447</u>
Net operating loss from utility operations	<u>(2,595,344)</u>	<u>(1,641,516)</u>
Non-operating income (expense):		
Non-operating income	199,004	498,000
Non-operating expense	(51,007)	(3,202,546)
Interest expense	<u>(3,065)</u>	<u>(3,499)</u>
Net non-operating income (expense)	<u>144,932</u>	<u>(2,100,643)</u>
Capital contributions	<u>2,904,912</u>	<u>1,326,763</u>
Increase (decrease) in net assets	\$ <u>454,500</u>	\$ <u>(3,022,798)</u>

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis
Year Ended September 30, 2003

Financial Highlights

The operating loss from utility operations increased \$821,308 in FY2003 compared to FY2002

- A slight increase of 1% in net operating revenues of \$2.4 million compared to FY-02, operating margins were eroded by historically high fuel costs of \$1.72 million, up 5% from FY-02 fuel costs.

Customers Accounts Receivable decreased by 8% from FY02

- Customers Accounts Receivable decreased to \$2,711,799 compared to FY-02's \$2,940,962, a decrease of 8%. Management was on top on customers' collections and regular disconnections were exercised every month.

Plant and equipment increased by 23% from FY-02

- Fixed assets increased to \$10,790,548 compared to FY-02's \$8,769,729, an increase of 23%. The largest single factor attributed to the increase is the purchases of 4 new Cummins generators from new Zealand valued at \$1.5 million.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Net Assets
September 30, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u> (As restated, note 7)
Current assets:		
Cash	\$ 6,041	\$ 9,377
Receivables:		
Utility	2,711,799	2,940,962
Due from RepMar	-	206,250
Due from ASPA	-	167,500
Employee receivables	1,784	-
Other	140,375	40,986
	<u>2,853,958</u>	<u>3,355,698</u>
Less allowance for doubtful accounts	<u>(2,549,269)</u>	<u>(2,389,393)</u>
Total receivables, net	<u>304,689</u>	<u>966,305</u>
Inventories	<u>216,268</u>	<u>188,259</u>
Total current assets	<u>526,998</u>	<u>1,163,941</u>
Plant and equipment, net	<u>10,790,548</u>	<u>9,377,131</u>
	<u>\$ 11,317,546</u>	<u>\$ 10,541,072</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Bank overdraft	\$ 29,227	\$ 42,085
Accounts payable	944,885	759,293
Due to affiliates	508,358	416,157
Accrued liabilities	284,573	340,334
Deferred revenue	112,800	-
Total current liabilities	<u>1,879,843</u>	<u>1,557,869</u>
Contingencies		
Net assets:		
Invested in capital assets	10,790,548	9,377,131
Unrestricted	<u>(1,352,845)</u>	<u>(393,928)</u>
Total net assets	<u>9,437,703</u>	<u>8,983,203</u>
	<u>\$ 11,317,546</u>	<u>\$ 10,541,072</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2003 and 2002

	2003	2002 (As restated, note 7)
Operating revenues:		
Electric and service billings	\$ 2,177,649	\$ 2,170,054
Water	280,843	261,152
Other	1,283	4,725
Total operating revenues	<u>2,459,775</u>	<u>2,435,931</u>
Operating expenses:		
Fuel and lubricants	1,728,340	1,649,436
Depreciation	947,053	983,061
Salaries, wages and benefits	786,640	709,934
Supplies and materials	461,197	213,048
Operations and maintenance	360,266	189,540
Bad debts	159,876	-
Travel and transportation	159,853	138,761
Training	132,520	-
Contractual services	127,578	18,780
Rental	100,035	66,503
Communications	39,226	65,635
Equipment	3,440	337
Miscellaneous	49,095	42,412
Total operating expenses	<u>5,055,119</u>	<u>4,077,447</u>
Operating loss	<u>(2,595,344)</u>	<u>(1,641,516)</u>
Nonoperating revenues (expenses):		
Operating subsidy	199,004	498,000
Interest expense	(3,065)	(3,499)
Capital outlays	(51,007)	(524,521)
Loss on disposal of fixed assets	-	(2,070,623)
Total nonoperating revenues (expenses), net	<u>144,932</u>	<u>(2,100,643)</u>
Capital grants	<u>2,904,912</u>	<u>1,326,763</u>
Change in net assets	454,500	(2,415,396)
Net assets at beginning of year	<u>8,983,203</u>	<u>11,398,599</u>
Net assets at end of year	<u>\$ 9,437,703</u>	<u>\$ 8,983,203</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u> (As restated, note 7)
Cash flows from operating activities:		
Cash received from customers	\$ 2,589,549	\$ 2,435,534
Cash payments to suppliers for goods and services	(2,911,766)	(1,831,384)
Cash payments to employees for services	(844,185)	(762,251)
Net cash used for operating activities	<u>(1,166,402)</u>	<u>(158,101)</u>
Cash flows from noncapital financing activities:		
Operating subsidy received	405,254	555,592
Change in bank overdraft	(12,858)	(26,094)
Net cash provided by noncapital financing activities	<u>392,396</u>	<u>529,498</u>
Cash flows from capital and related financing activities:		
Capital grants received	3,185,212	1,159,263
Acquisition of capital assets	(2,360,470)	(1,008,115)
Other capital outlays	(51,007)	(524,521)
Interest expense	(3,065)	(3,499)
Net cash provided by (used for) capital and related financing activities	<u>770,670</u>	<u>(376,872)</u>
Net decrease in cash	(3,336)	(5,475)
Cash at beginning of year	9,377	14,852
Cash at end of year	<u>\$ 6,041</u>	<u>\$ 9,377</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (2,595,344)	\$ (1,641,516)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	947,053	983,061
Provision for uncollectible accounts receivable	159,876	-
(Increase) decrease in assets:		
Accounts receivables:		
Utility	229,163	12,718
Employees	(1,784)	613
Other	(99,389)	(13,115)
Materials and supplies	(28,009)	17,423
Increase (decrease) in liabilities:		
Accounts payable	185,592	498,926
Payable to affiliates	92,201	36,719
Other current and accrued liabilities	(55,761)	(52,930)
Net cash used for operating activities	<u>\$ (1,166,402)</u>	<u>\$ (158,101)</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements September 30, 2003 and 2002

(1) Organization

The Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), a component unit of the Republic of the Marshall Islands, was incorporated under the laws of the Republic of the Marshall Islands (RepMar) on September 1, 1990, to generate and distribute utilities on the island of Ebeye. On October 19, 1990, the Board of Directors of the Kwajalein Atoll Development Authority (KADA) authorized the transfer of \$14,075,046 in utility plant and equipment to KAJUR. KAJUR has sold 100,000 shares of \$1 par value common stock to KADA, which is the sole owner of common stock of KAJUR. KAJUR's financial statements are incorporated into the general purpose financial statements of RepMar as a component unit.

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

(2) Summary of Significant Accounting Policies

The accounting policies of KAJUR conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. KAJUR has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

All 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 this fund are included in the statements of net assets.

The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred. Revenues are recorded as billed to customers on a monthly cycle billing basis. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

Cash

For purposes of the balance sheets and statements of cash flows, cash is defined as cash on hand and cash in checking accounts. At September 30, 2003 and 2002, substantially all of KAJUR's cash is with a non-federally insured bank.

Receivables and Allowance for Doubtful Accounts

KAJUR provides electric services to government agencies, businesses and individuals located on the island of Ebeye and bills for these services on a monthly basis. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to operating expenses. Receivables are not collateralized.

Inventories

Inventories of fuel and supplies are stated at the lower of cost (first-in, first-out) or market (net realizable value) at September 30, 2003 and 2002. Bulk fuel inventories are held for power plant use.

Plant and Equipment

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

	<u>Estimated Useful Lives</u>
Plant and machinery	20 - 25 years
Distribution system	20 - 25 years
Water system	20 - 25 years
Other equipment	5 years

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. The liability as of September 30, 2003 and 2002, is \$43,902 and \$102,667, respectively, and is included within the statements of net assets as accrued liabilities. Sick pay benefits vest at 50% and are recorded as an expense and liability as the benefits accrue to employees. The liability as of September 30, 2003 and 2002, is \$41,180 and \$43,760, respectively, and is included within the statements of net assets as accrued liabilities.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2003, KAJUR implemented 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*, and modified by Statement No. 38, *Certain Financial Statement Disclosures*. These statements establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB 34, the following changes have been made to KAJUR's financial statements:

- Retained earnings have been reclassified into the following net assets categories:
 - Investment in capital assets; capital assets, net of accumulated depreciation and related debt obtained to finance asset acquisition, 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.
- The statement of cash flows has been presented using the direct method.

For fiscal year 2004, KAJUR will be implementing GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. For fiscal year 2005, KAJUR will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Management does not believe that the implementation of these statements will have a material effect on the financial statements of KAJUR.

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

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of KAJUR.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2003 and 2002

(3) Risk Management

KAJUR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. KAJUR has elected not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, KAJUR believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. No losses as a result of these risks have occurred for the past three years.

(4) Plant and Equipment

Capital assets activity for the years ended September 30, 2003 and 2002, was as follows:

	2003			September 30, 2003
	October 1, 2002	Additions	Retirements	
Plant and machinery	\$ 9,727,293	\$ 16,049	\$ -	\$ 9,743,342
Distribution system	2,387,708	13,575	-	2,401,283
Water system	748,873	-	-	748,873
Other equipment	907,171	78,399	-	985,570
	13,771,045	108,023	-	13,879,068
Less accumulated depreciation	(5,097,350)	(947,053)	-	(6,044,403)
	8,673,695	(839,030)	-	7,834,665
Construction work-in-progress	703,436	2,252,447	-	2,955,883
	\$ 9,377,131	\$ 1,413,417	\$ -	\$ 10,790,548
	2002			
	October 1, 2001	Additions	Retirements	September 30, 2002
Plant and machinery	\$ 10,537,921	\$ 1,490,643	\$ (2,301,271)	\$ 9,727,293
Distribution system	1,307,541	1,080,167	-	2,387,708
Water system	2,665,082	698,873	(2,615,082)	748,873
Other equipment	404,843	502,328	-	907,171
	14,915,387	3,772,011	(4,916,353)	13,771,045
Less accumulated depreciation	(6,960,019)	(983,061)	2,845,730	(5,097,350)
	7,955,368	2,788,950	(2,070,623)	8,673,695
Construction work-in-progress	3,467,332	914,843	(3,678,739)	703,436
	\$ 11,422,700	\$ 3,703,793	\$ (5,749,362)	\$ 9,377,131

(5) Related Party Transactions

KAJUR is wholly owned by KADA, which was created on September 1, 1990, by a public law of RepMar. KADA is operated by a Board of Directors, who are appointed by the Cabinet of RepMar. KAJUR is therefore affiliated with all RepMar owned and affiliated entities.

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.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2003 and 2002

(5) Related Party Transactions, Continued

KAJUR utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions for the years ended September 30, 2003 and 2002 and the related receivable and payable balances as of September 30, 2003 and 2002, are as follows:

	2003		
	<u>Expenses</u>	<u>Receivable</u>	<u>Payable</u>
American Samoa Power Authority (ASPA)	\$ 336,933	\$ -	\$ 87,373
Marshall Islands Social Security Administration	-	-	340,119
Marshall Islands National Telecommunications Authority	39,226	-	9,552
RepMar	<u>-</u>	<u>-</u>	<u>71,314</u>
	<u>\$ 376,159</u>	<u>\$ -</u>	<u>\$ 508,358</u>
	2002		
	<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>

In accordance with the management contract between RepMar, KADA and ASPA, RepMar and KADA are required to make working capital available for KAJUR's operations. During the years ended September 30, 2003 and 2002, RepMar made \$199,004 and \$498,000, respectively, available for this purpose. These amounts are recorded as operating subsidies in the accompanying financial statements.

As of September 30, 2003 and 2002, KAJUR maintained demand deposit accounts with a related financial institution in the amount of \$6,041 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 years ended September 30, 2003 and 2002, RepMar made available to KAJUR loan funds in the amount of \$0 and \$83,091, respectively, 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 JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2003 and 2002

(5) Related Party Transactions, Continued

KAJUR received additional capital grants from ASPA through grant awards from the U.S. Department of the Interior (DOI). During the years ended September 30, 2003 and 2002, \$1,242,612 and \$868,672, respectively, were received by KAJUR for the funding of equipment and infrastructure projects related to these grants. Additionally, during the years ended September 30, 2003 and 2002, KAJUR received \$1,775,100 and \$375,000, respectively, in matching funds related to these grants from RepMar. As of September 30, 2003 and 2002, KAJUR recorded deferred revenue of \$112,800 and \$0, respectively, representing unexpended capital grants. During the years ended September 30, 2003 and 2002, KAJUR refurbished a school building funded by a DOI grant amounting to \$51,007 and \$524,521, respectively, which was transferred to RepMar.

(6) Going Concern

KAJUR has incurred significant net operating losses since inception. KAJUR depends on KADA and RepMar for cash and noncash funding to continue its operations. Although KADA and RepMar have provided funding in the past, no formal agreement exists to provide funds in the future, except as described in note 5. The continuation of KAJUR's operations is dependent upon future financial support from KADA and RepMar and/or significant improvements in operations.

(7) Restatement

The 2002 financial statements have been restated to reflect the correction of an error that occurred in accounting for a loss on disposal of fixed assets.

Loss on disposal of fixed assets, as originally stated	\$ <u>2,678,025</u>
Loss on disposal of fixed assets, as restated	\$ <u>2,070,623</u>