

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

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

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

## INDEPENDENT AUDITORS' REPORT

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

We were engaged to audit the accompanying statements of net assets of the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), a component unit of the Republic of the Marshall Islands, as of September 30, 2006 and 2005 and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of KAJUR's management.

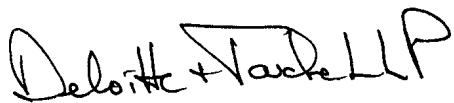
Because of inadequacies in KAJUR's accounting records and internal control, we were unable to satisfy ourselves about the amounts at which receivables, inventories, plant and equipment, accounts payable, and accrued liabilities are recorded in the accompanying statements of net assets at September 30, 2006 and 2005, and the amounts at which revenues and expenses are recorded for the years then ended.

We were unable to obtain written representations from management of KAJUR as required by auditing standards generally accepted in the United States of America.

Because of the significance of the matter discussed in the second paragraph above and because management did not provide us with written representations, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

KAJUR has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2009, on our consideration of KAJUR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and should be considered in assessing the results of our engagement.



June 25, 2009

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Statements of Net Assets  
September 30, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash	\$ 20,344	\$ 4,032
Receivables:		
Utility	3,158,010	3,036,055
Affiliate	38,418	155,000
Employees	3,359	1,243
Other	177,305	160,181
	<u>3,377,092</u>	<u>3,352,479</u>
Less allowance for doubtful accounts	(3,268,036)	(2,992,292)
Total receivables, net	<u>109,056</u>	<u>360,187</u>
Prepaid expenses	29,200	-
Inventories	<u>103,508</u>	<u>156,124</u>
Total current assets	262,108	520,343
Capital assets, net	<u>5,874,900</u>	<u>5,793,902</u>
	<u>\$ 6,137,008</u>	<u>\$ 6,314,245</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable - fuel	\$ 22,416	\$ 461,396
Accounts payable - other	486,876	469,471
Social security taxes payable	762,138	603,524
Due to affiliates	234,616	166,697
Accrued liabilities	267,678	260,663
Deferred revenue	129,953	129,677
Total current liabilities	<u>1,903,677</u>	<u>2,091,428</u>
Accrued sick leave - long-term	<u>39,044</u>	<u>34,151</u>
	<u>1,942,721</u>	<u>2,125,579</u>
Contingencies		
Net assets:		
Invested in capital assets	5,874,900	5,793,902
Unrestricted	<u>(1,680,613)</u>	<u>(1,605,236)</u>
Total net assets	<u>4,194,287</u>	<u>4,188,666</u>
	<u>\$ 6,137,008</u>	<u>\$ 6,314,245</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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Electric and service billings	\$ 2,359,260	\$ 2,855,907
Water	318,435	504,815
Other	<u>159,588</u>	<u>214,448</u>
Total operating revenues	2,837,283	3,575,170
Less provision for doubtful accounts	<u>(275,744)</u>	<u>(369,153)</u>
Total net operating revenues	<u>2,561,539</u>	<u>3,206,017</u>
Operating expenses:		
Fuel and lubricants	2,694,749	2,789,278
Salaries, wages and benefits	884,604	714,485
Depreciation	640,353	699,812
Operations and maintenance	138,692	163,920
Supplies and materials	67,972	(185,241)
Contractual services	56,440	80,993
Rental	26,268	26,268
Communications	19,275	43,887
Travel and transportation	6,486	101,564
Loss on impairment of fixed assets	-	782,964
Miscellaneous	<u>10,030</u>	<u>97,721</u>
Total operating expenses	<u>4,544,869</u>	<u>5,315,651</u>
Operating loss	<u>(1,983,330)</u>	<u>(2,109,634)</u>
Nonoperating revenues (expenses):		
Operating subsidies	715,895	904,357
Compact funding	636,237	-
Interest expense	(76,855)	-
Loss on write-off of fixed assets	<u>(14,795)</u>	<u>(723,738)</u>
Total nonoperating revenues (expenses), net	<u>1,260,482</u>	<u>180,619</u>
Capital contributions	<u>728,469</u>	<u>565,614</u>
Change in net assets	5,621	(1,363,401)
Net assets at beginning of year	<u>4,188,666</u>	<u>5,552,067</u>
Net assets at end of year	<u><u>\$ 4,194,287</u></u>	<u><u>\$ 4,188,666</u></u>

See accompanying notes to financial statements.

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Statements of Cash Flows  
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,698,480	\$ 3,165,738
Cash payments to suppliers for goods and services	(3,099,083)	(2,969,017)
Cash payments to employees for services	(874,812)	(738,685)
Net cash used for operating activities	<u>(1,275,415)</u>	<u>(541,964)</u>
Cash flows from noncapital financing activities:		
Operating subsidies received from RepMar	715,895	749,357
Compact funding received from RepMar	583,509	-
Net change in bank overdraft	-	(24,872)
Net cash provided by noncapital financing activities	<u>1,299,404</u>	<u>724,485</u>
Cash flows from capital and related financing activities:		
Capital contributions received from RepMar	-	172,877
Acquisition and construction of capital assets	(7,677)	(351,366)
Net cash used for capital and related financing activities	<u>(7,677)</u>	<u>(178,489)</u>
Net change in cash	16,312	4,032
Cash at beginning of year	4,032	-
Cash at end of year	<u>\$ 20,344</u>	<u>\$ 4,032</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (1,983,330)	\$ (2,109,634)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	640,353	699,812
Provision for doubtful accounts	275,744	369,153
Loss on impairment of fixed assets	-	782,964
(Increase) decrease in assets:		
Receivables:		
Utility	(121,955)	(366,273)
Employees	(2,116)	705
Other	(17,124)	(19,881)
Inventories	52,616	(221,710)
Increase (decrease) in liabilities:		
Accounts payable	(281,465)	189,219
Payable to affiliates	149,678	186,504
Deferred revenue	276	(23,278)
Other current and accrued liabilities	11,908	(29,545)
Net cash used for operating activities	<u>\$ (1,275,415)</u>	<u>\$ (541,964)</u>

See accompanying notes to financial statements.

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Statements of Cash Flows, Continued  
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Non-cash investing, capital, and financing activities:		
Compact funding received from RepMar	\$ 311,788	\$ -
Receivables from affiliates	(122,478)	-
Prepaid expenses	(29,200)	-
Accounts payable	(160,110)	-
	<u>\$ -</u>	<u>\$ -</u>
Capital contributions received from RepMar	\$ 728,469	\$ 398,529
Acquisition and construction of capital assets	(728,469)	(398,529)
	<u>\$ -</u>	<u>\$ -</u>
Capital assets	\$ -	\$ 723,738
Loss on write off of fixed assets	-	(723,738)
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

## KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements  
September 30, 2006 and 2005

### (1) Organization

The Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), a component unit of the Republic of the Marshall Islands, was incorporated under the laws of the Republic of the Marshall Islands (RepMar) on September 13, 1990, to generate and distribute utilities on the island of Ebeye. On October 19, 1990, the Board of Directors of the Kwajalein Atoll Development Authority (KADA) authorized the transfer of \$14,075,046 in utility plant and equipment to KAJUR.

On 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.

On May 2, 2006, the Cabinet of RepMar approved the transfer of all management responsibilities of KAJUR to the Board of Directors of the Marshalls Energy Company, Inc., a component unit of RepMar. On July 24, 2006, the Cabinet of RepMar approved the introduction of legislation to the Nitijela (RepMar's legislature) to repeal the enabling legislation that created KADA.

KAJUR's financial statements are incorporated into the financial statements of RepMar as a component unit.

### (2) Summary of Significant Accounting Policies

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

KAJUR considers utility and nonutility revenues and costs that are directly related to utility and nonutility operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

GASB issued 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*. 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 modify certain other financial statement disclosure requirements.

# KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements  
September 30, 2006 and 2005

## (2) Summary of Significant Accounting Policies, Continued

To conform to the requirements of GASB Statement 34, retained earnings are presented in the following net asset categories:

- Invested in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

### Estimates

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

### Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

### Cash

Custodial credit risk is the risk that in the event of a bank failure, KAJUR's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. KAJUR does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash in checking accounts. As of September 30, 2006 and 2005, the carrying amount of cash was \$20,344 and \$4,032, respectively, and the corresponding bank balances were \$39,650 and \$24,104, respectively. At September 30, 2006 and 2005, substantially all of KAJUR's cash is with a non-federally insured bank.

### Receivables

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

# KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements  
September 30, 2006 and 2005

## (2) Summary of Significant Accounting Policies, Continued

### Inventories

Inventories of fuel and supplies are stated at the lower of cost (first-in, first-out) or market (net realizable value) at September 30, 2006 and 2005. 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:

Plant and machinery	20 - 25 years
Distribution system	20 - 25 years
Water system	20 - 25 years
Other equipment	5 years

### Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross revenue tax of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, sales of electricity services by public utility companies are exempt from gross revenue tax. Accordingly, KAJUR is exempt from this tax relating to gross revenue from sales of electric services.

### Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. The liability as of September 30, 2006 and 2005, is \$46,561 and \$32,850, respectively, and is included within the statements of net assets as accrued liabilities. Sick pay benefits vest at 50% and are recorded as an expense and a liability as the benefits accrue to employees. The liability as of September 30, 2006 and 2005, is \$39,044 and \$34,151, respectively, and is included within the statements of net assets as accrued liabilities.

### New Accounting Standards

During fiscal year 2006, KAJUR implemented the following pronouncements:

- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which 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.
- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations.

## KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements  
September 30, 2006 and 2005

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards, Continued

- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

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

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. 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 Postemployment Benefits Other Than Pensions*, which 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, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of KAJUR.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of KAJUR.

### (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.

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Notes to Financial Statements  
September 30, 2006 and 2005

(4) Inventories

Inventories at September 30, 2006 and 2005, consist of the following:

	<u>2006</u>	<u>2005</u>
Materials and supplies	\$ 88,128	\$ 125,090
Fuel	8,454	31,034
Lubricants	<u>6,926</u>	<u>-</u>
	<u>\$ 103,508</u>	<u>\$ 156,124</u>

(5) Capital Assets

Capital assets activity for the years ended September 30, 2006 and 2005 is as follows:

	<u>2006</u>			
	October 1, <u>2005</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2006</u>
Plant and machinery	\$ 4,183,189	\$ 305,680	\$ -	\$ 4,488,869
Distribution system	1,902,446	-	(52,302)	1,850,144
Water system	1,031,015	-	-	1,031,015
Other equipment	<u>1,402,224</u>	<u>7,677</u>	<u>-</u>	<u>1,409,901</u>
	8,518,874	313,357	(52,302)	8,779,929
Less accumulated depreciation	<u>(3,765,732)</u>	<u>(640,353)</u>	<u>37,507</u>	<u>(4,368,578)</u>
	4,753,142	(326,996)	(14,795)	4,411,351
Construction work-in-progress	<u>1,040,760</u>	<u>728,469</u>	<u>(305,680)</u>	<u>1,463,549</u>
	<u>\$ 5,793,902</u>	<u>\$ 401,473</u>	<u>\$ (320,475)</u>	<u>\$ 5,874,900</u>
	<u>2005</u>			
	October 1, <u>2004</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2005</u>
Plant and machinery	\$ 4,982,097	\$ 1,808	\$ (800,716)	\$ 4,183,189
Distribution system	2,454,564	1,993	(554,111)	1,902,446
Water system	612,309	555,270	(136,564)	1,031,015
Other equipment	<u>941,264</u>	<u>590,147</u>	<u>(129,187)</u>	<u>1,402,224</u>
	8,990,234	1,149,218	(1,620,578)	8,518,874
Less accumulated depreciation	<u>(3,508,531)</u>	<u>(699,812)</u>	<u>442,611</u>	<u>(3,765,732)</u>
	5,481,703	449,406	(1,177,967)	4,753,142
Construction work-in-progress	<u>1,768,818</u>	<u>683,504</u>	<u>(1,411,562)</u>	<u>1,040,760</u>
	<u>\$ 7,250,521</u>	<u>\$ 1,132,910</u>	<u>\$ (2,589,529)</u>	<u>\$ 5,793,902</u>

At September 30, 2005, management of KAJUR determined that certain capital assets in the amount of \$1,042,349, net of \$318,611 in accumulated depreciation, no longer existed. Accordingly, these capital assets were written off resulting in a loss of \$723,738 for the year ended September 30, 2005.

During the year ended September 30, 2005, KAJUR recognized an impairment loss of \$782,964 related to generator sets and reverse osmosis units that have become impaired due to unexpected obsolescence.

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Notes to Financial Statements  
September 30, 2006 and 2005

(6) Social Security Taxes Payable

At September 30, 2006 and 2005, KAJUR was liable for taxes, including certain delinquent taxes payable to the Marshall Islands Social Security Administration (MISSA) in the amounts of \$762,138 and \$603,524, respectively. On October 12, 2007, KAJUR and MISSA entered into a promissory note agreement for the delinquent taxes. The terms of this agreement include monthly payments of \$8,000, inclusive of interest at 12% per annum, commencing October 31, 2007. For the years ended September 30, 2006 and 2005, KAJUR incurred penalties and interest relating to these delinquent taxes of \$76,855 and \$6,887, respectively.

During the years ended September 30, 2006 and 2005, employer contributions incurred by KAJUR for MISSA taxes amounted to \$74,961 and \$70,664, respectively.

(7) Changes in Long-Term Liabilities

Changes in long-term liabilities during the years ended September 30, 2006 and 2005 were as follows:

	<u>Balance at</u> <u>October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>September 30, 2006</u>	<u>Due within</u> <u>One Year</u>
Accrued sick leave	\$ <u>34,151</u>	\$ <u>7,665</u>	\$ <u>(2,772)</u>	\$ <u>39,044</u>	\$ <u>-</u>
	<u>Balance at</u> <u>October 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>September 30, 2005</u>	<u>Due within</u> <u>One Year</u>
Accrued sick leave	\$ <u>20,051</u>	\$ <u>17,496</u>	\$ <u>(3,396)</u>	\$ <u>34,151</u>	\$ <u>-</u>

(8) Related Party Transactions

KAJUR is a component unit of KADA, which was established pursuant to Public Law 1989-36, the Kwajalein Atoll Development Authority Act of 1989. KADA is operated by a Board of Directors, the members of which are appointed by the Cabinet of RepMar. KAJUR is therefore affiliated with all RepMar owned and affiliated entities.

KAJUR utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions for the years ended September 30, 2006 and 2005 and the related receivable and payable balances as of September 30, 2006 and 2005, are as follows:

	<u>2006</u>		
	<u>Expenses</u>	<u>Receivable</u>	<u>Payable</u>
American Samoa Power Authority (ASPA)	\$ -	\$ -	\$ 85,459
Marshall Islands National Telecommunications Authority	19,275	-	33,200
RepMar	-	-	81,149
Other	<u>-</u>	<u>-</u>	<u>34,808</u>
	\$ <u>19,275</u>	\$ <u>-</u>	\$ <u>234,616</u>

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Notes to Financial Statements  
September 30, 2006 and 2005

(8) Related Party Transactions, Continued

	2005		
	<u>Expenses</u>	<u>Receivable</u>	<u>Payable</u>
American Samoa Power Authority (ASPA)	\$ -	\$ -	\$ 85,459
Marshall Islands National Telecommunications Authority	43,887	-	5,990
RepMar	-	-	66,571
Other	-	-	8,677
	<u>\$ 43,887</u>	<u>\$ -</u>	<u>\$ 166,697</u>

During the years ended September 30, 2006 and 2005, the operations of KAJUR were funded by appropriations from RepMar in the amounts of \$1,352,132 and \$904,357, respectively, of which \$38,418 and \$155,000 was due and receivable from RepMar at September 30, 2006 and 2005, respectively. Of these appropriations from RepMar for the year ended September 30, 2006, \$311,788 was paid directly by RepMar to vendors for the purchase of fuel and lubricants.

In addition, during the years ended September 30, 2006 and 2005, KAJUR was the recipient of capital grants from RepMar in the amounts of \$728,469 and \$565,614, respectively, of which \$728,469 and \$398,529, respectively, was paid directly by RepMar to vendors for the acquisition and construction of capital assets.

As of September 30, 2006 and 2005, KAJUR maintained demand deposit accounts with a related financial institution in the amount of \$20,344 and \$4,032, respectively.

KAJUR received additional capital grants from ASPA through grant awards from the U.S. Department of the Interior (DOI). As of September 30, 2006 and 2005, KAJUR recorded deferred revenue of \$112,800, representing unexpended capital grants.

(9) Contingencies

KAJUR has incurred significant net operating losses since inception. KAJUR depends on RepMar for cash and noncash funding to continue its operations. Although RepMar has provided funding in the past, no formal agreement exists to provide funds in the future. The continuation of KAJUR's operations is dependent upon future financial support from RepMar in the form of operating subsidies and/or significant improvements in operations through the collection of long outstanding utility receivables and other matters.

KAJUR participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$1,375,456 relating to fiscal years 2004 through 2006 have been set forth in KAJUR's Single Audit Report for the year ended September 30, 2006. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

In the ordinary course of business, claims have been filed against KAJUR. Management does not believe that the plaintiffs will prevail and the ultimate outcome is currently not determinable. Therefore, no provision has been recorded in the accompanying financial statements for losses, if any, that may result.

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Notes to Financial Statements  
September 30, 2006 and 2005

(10) Subsequent Event

On October 12, 2007, KAJUR and MISSA entered into a promissory note agreement for delinquent taxes amounting to \$902,057.