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# MARSHALLS ENERGY COMPANY, INC.
# (A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALLS ISLANDS)

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## FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

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## YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Deloitte

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: +1 671 646 3884
Fax: +1 671 649 4932
www.deloitte.com

# INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshalls Energy Company, Inc.:

We have audited the accompanying statements of net assets of the Marshalls Energy Company, Inc. (MEC), a component unit of the Republic of the Marshall Islands, as of September 30, 2007 and 2006, 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 MEC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MEC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the financial position of MEC as of September 30, 2007 and 2006, 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.

The accompanying financial statements have been prepared assuming that MEC will continue as a going concern. As discussed in Note 10 to the financial statements, MEC's recurring losses from operations and net deficiency raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Management's Discussion and Analysis on pages 3 through 6 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 MEC'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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of MEC taken as a whole. The accompanying Schedule of Revenues, Expenses and Changes in Net Assets by Source for the year ended September 30, 2007 (page 22) is presented for purposes of additional analysis and is not a required part of the basic financial statements of MEC. This schedule is the responsibility of MEC's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements for the year ended September 30, 2007 and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2008, on our consideration of MEC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Deloitte + Touche LLP

May 16, 2008

## MARSHALLS ENERGY COMPANY, INC.

Management's Discussion and Analysis
Year Ended September 30, 2007

Marshalls Energy Company, Inc. (MEC) herewith presents a discussion and analysis of the Company's financial performance for the financial year ended 30th September, 2007. It is to be read in conjunction with the financial statements following this section.

### FINANCIAL HIGHLIGHTS

MEC's net assets decreased by $3,632,581 in 2007 compared to a decrease in net assets of $4,042,966 in 2006. This decrease occurred as a result of continued financial difficulties experienced during the financial year, which were due mainly to a significant shortage of working capital which, in turn, inhibited the Company's ability to purchase sufficient quantities of fuel to supply the regular customer base that had been established in prior years. The situation began to ease a little after the successful negotiation of a $12 million refinancing loan from the Bank of Guam in May 2007. This enabled MEC to retire a high interest, short term debt owed to Mobil Oil Micronesia, repay the Bank of Guam short term loan, repay the Bank of Guam line of credit for the previous shipment of fuel and to make a down payment to secure the next shipment of fuel. It has also allowed MEC to continue purchasing fuel without the need to rely on either the Bank of Guam's line of credit facility or cash advances from RepMar, thereby further reducing MEC's future interest bills. MEC was then able to begin rebuilding its customer base for fuel sales. This was made difficult through the continuing increase in the world price of fuel, resulting in the shipments arriving in Majuro being of a lesser quantity than would have otherwise been the case had the price of fuel been lower.

Fortunately MEC has been able to continue to increase the price of electricity to cover the increased cost of fuel used in generation. If it was not for the electricity billing revenue increasing from $11.5 million in 2006 to $14.1 million in 2007, or 22% for the year, the loss would have been substantially higher. The increase in billing revenue was facilitated by the approval of Cabinet in October 2005, of the Pricing Template which allows MEC to automatically adjust electricity tariffs in line with the movements of published world oil prices, without the need to seek Cabinet approval. Increases were implemented in October 2006, January 2007, June 2007 and July 2007. Further increases were necessary in December 2007, January 2008 and April 2008. The most significant component of generation operating costs remains to be fuel and lubricants, the cost of which for the year represented 79% of total generation costs. The total cost of generation increased marginally by $256,000 or 1.9%. Most of this is explained by an increase in repairs and maintenance of $412,000. The rest of generation costs were held to about the same levels as the previous year.

Non-utility revenue, of which fuel sales is the major component, decreased by $1.396 million or 14% for the year. Again this was the direct result of a shortage of working capital, which restricted MEC's fuel purchasing power, thereby resulting in a shortage of fuel for sale.

### FINANCIAL ANALYSIS OF MEC

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provides an indication of MEC's financial condition. MEC's net assets reflect the difference between total assets and total liabilities. An increase in net assets over time normally indicates an improvement in financial condition.

## MARSHALLS ENERGY COMPANY, INC.

Management's Discussion and Analysis
Year Ended September 30, 2007

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

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Current and other assets | $ 10,689,710 | $ 6,991,585 | $ 4,719,675 |
| Capital assets | 9,925,415 | 10,769,790 | 11,526,838 |
| Total assets | 20,615,125 | 17,761,375 | 16,246,513 |
| Current liabilities | 9,302,997 | 8,305,482 | 6,549,877 |
| Non-current liabilities | 18,194,956 | 12,706,140 | 8,903,917 |
| Total liabilities | 27,497,953 | 21,011,622 | 15,453,794 |
| Net assets: | | | |
| Invested in capital assets | 1,631,202 | 1,865,874 | 2,110,951 |
| Restricted | 373,056 | 439,971 | 115,129 |
| Unrestricted | (8,887,086) | (5,556,092) | (1,433,361) |
| Total net assets | $ (6,882,828) | $ (3,250,247) | $ 792,719 |

Total assets increased by $2.85 million or 16% from $17,761,375 in 2006 to $20,615,125 in 2007. The majority of the increase is represented by an increase in cash (for fuel purchases) of $2.3 million, increase in fuel inventory of $1.3 million, less an increase in accumulated depreciation of $0.8 million. Receivables increased marginally by $372,268 due to the increases in electricity tariffs which were forced on MEC by the increases in world fuel prices. Net accounts receivable increased to $2,628,372 compared to $2,256,104 in 2006 and $2,411,082 in 2005. The increase was anticipated due to the four tariff increases which were necessary during the year. The additional allowance for bad debts was primarily due to the uncertainty of collecting the debt owed to MEC by the Majuro Water and Sewer Company, Inc.

Total liabilities increased by $6.4 million which is represented by the establishment of a reserve of $3.4 million specifically for the repair of the fire damage sustained at the Majuro power station No. 1 and a debt of $2.9 million owed to MEC's fuel supplier for fuel purchased. The repairs to the power station are ongoing and the fuel debt was paid in full in October 2007.

For additional information concerning MEC's debt, please refer to notes 7 and 8 to the financial statements.

The Statement of Revenues, Expenses and Changes in Net Assets identifies the various revenue and expense items that contributed to the change in net assets. As indicated below, MEC's total revenue increased marginally by $825,220 or 4% to a total of $22,097,840 compared to $21,272,620 in 2006 and $23,774,391 in 2005. This was primarily due to the shortage in working capital which prevented the Company from purchasing sufficient fuel to maintain fuel sales at levels achieved in previous years. Electricity billings increased by $2.22 million or 19% to $13,734,688 compared to $11,513,582 in 2006 and $9,712,058 in 2005. Non-Utility revenue, which is basically fuel sales, decreased by $1.39 million or 14% to $8,363,152 compared to $9,759,038 in 2006 and $14,062,333 in 2005. No compact funding was received in 2007, 2006 or 2005. Operating contributions of $419,250 and $455,000 were received in 2007 from RepMar for the operation of the outer island power stations in Jaluit and Wotje, and for assistance in purchasing fuel for the Majuro power stations.

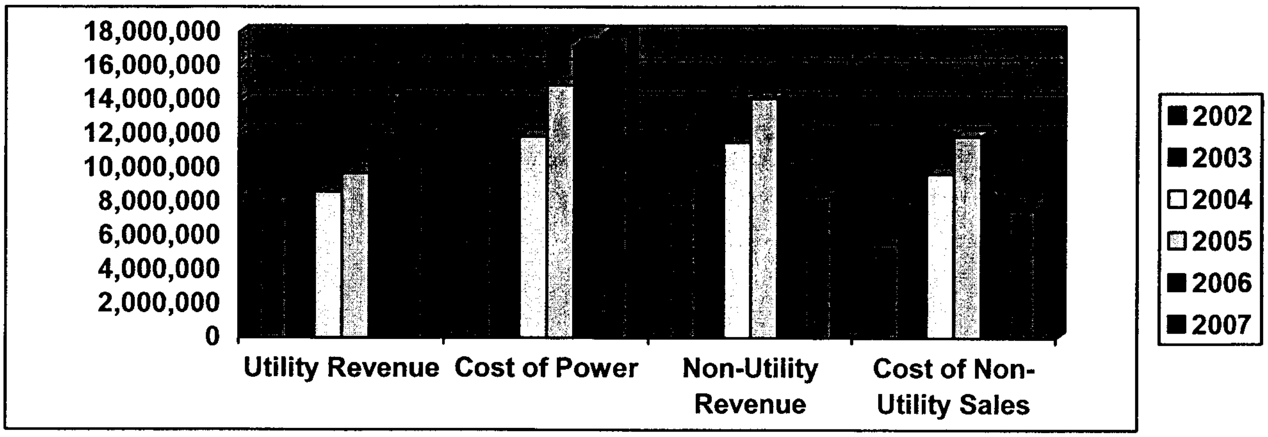
## MARSHALLS ENERGY COMPANY, INC.

Management's Discussion and Analysis
Year Ended September 30, 2007

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

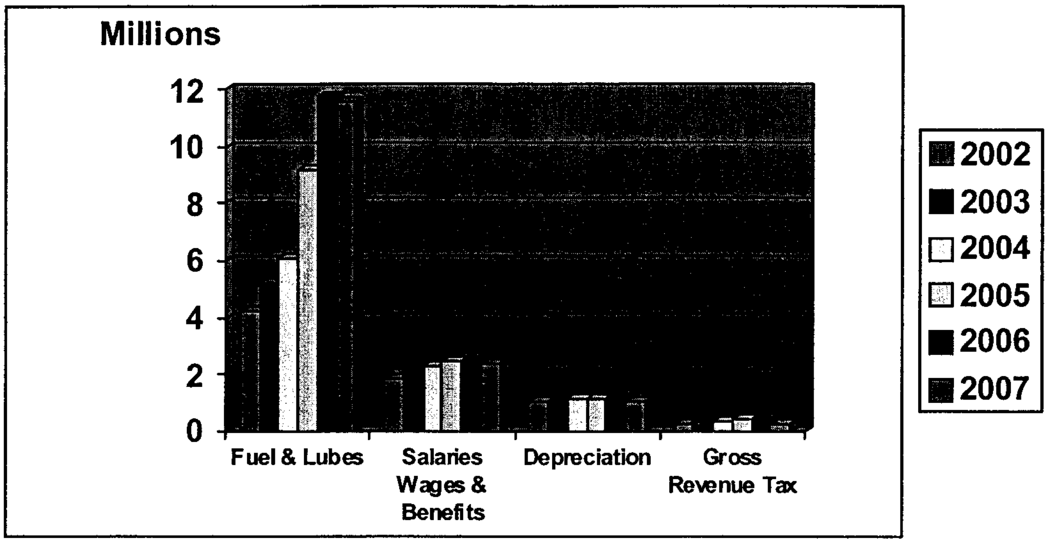
| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Revenue: | | | |
| Utility revenue | $ 13,734,688 | $ 11,513,582 | $ 9,712,058 |
| Non-utility revenue | 8,363,152 | 9,759,038 | 14,062,333 |
| Total revenue | 22,097,840 | 21,272,620 | 23,774,391 |
| Expenses: | | | |
| Utility expenses | 17,465,012 | 17,152,117 | 14,869,874 |
| Non-utility expenses | 7,528,366 | 8,014,783 | 11,864,242 |
| Total expenses | 24,993,378 | 25,166,900 | 26,734,116 |
| Operating income (loss) | (2,895,538) | (3,894,280) | (2,959,725) |
| Interest expense | (1,611,293) | (1,618,686) | (606,213) |
| Capital contributions | - | 650,000 | - |
| RMI subsidy | 874,250 | 820,000 | 400,000 |
| Change in net assets | $ (3,632,581) | $ (4,042,966) | $ (3,165,938) |

The graphic below shows the major components of revenue from 2002 through to 2007:




Total expenses were almost the same at $24.99 million for 2007 compared to $25.16 million in 2006 but were significantly down compared to $26.73 million in 2005. The main reason for this was the reduction in the cost of sales of fuel, which was offset by the increase in the cost of fuel used for generation. The cost of fuel as a percentage of total generation operating costs rose from 77% in 2005 to 83% in 2006, but fell to 79% in 2007. The main reason for this is that maintenance costs on essential items in the Majuro power stations increased by $412,610 while fuel consumption was further reduced in the Majuro power stations. The cost of fuel and lubricants used for generation decreased from $11.7 million in 2006 to $11.5 in 2007, compared to $9.2 million in 2005.

The following graphic shows the major components of operating expenses excluding the cost of fuel sold, from 2002 through to 2007:




## CAPITAL ASSETS

Total capital assets before depreciation increased by $158,807 mainly as a result of the purchase of miscellaneous equipment at a cost of $406,770, of which $305,927 was solar installations at Wotho and Wodmej completed during the year offset by the scrapping of some vehicles which were well past economical repair with an original cost of $247,963 and fully depreciated. The net provision for depreciation increased by $800,628 after writing back the accumulated depreciation on the scrapped vehicles. This gives a net decrease in net capital assets of $844,375. For additional information concerning MEC's capital assets, please refer to note 5 to the financial statements.

## ECONOMIC FACTORS

MEC will continue to closely monitor operating expenses and maintain tight fiscal constraints and control over utility receivables in order to further improve cash collections and the net asset position. MEC, as a viable ongoing concern, will continue to be dependent on the financial support of RepMar in the form of:

a) timely payment by RepMar for services provided,
b) the collection of long outstanding utility receivables, and
c) continuing improvements in operations.

Even though there were four tariff increases during the year in October 2006, January 2007, June 2007 and July 2007, further increases have been necessary in December 2007, January 2008 and April 2008 due to the continuing escalation of world fuel prices. Despite these increases MEC has been able to maintain electricity tariffs at levels which are still about the lowest in the Pacific.

Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in the report on the audit of MEC's financial statements, which is dated June 30, 2007. That Discussion and Analysis explains the major factors impacting the 2006 financial statements.

## ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide MEC's customers and other stake holders with an overview of the company's operations and financial condition as at 30th September 2007. Should the reader have questions regarding the information included in this report, or wish to request additional financial information, please contact the Marshalls Energy Company, Inc. General Manager at P.O. Box 1439, Majuro, Marshall Islands, MH96960.

## MARSHALLS ENERGY COMPANY, INC.

Statements of Net Assets
September 30, 2007 and 2006

| ASSETS | 2007 | 2006 |
|---|---|---|
| Utility plant: | | |
| Electric plant in service | $ 19,976,711 | $ 19,817,904 |
| Construction work in progress | 79,606 | 282,160 |
| Total utility plant | 20,056,317 | 20,100,064 |
| Less accumulated depreciation and amortization | (10,182,442) | (9,385,176) |
| Net utility plant | 9,873,875 | 10,714,888 |
| Other assets: | | |
| Nonutility property | 181,862 | 181,862 |
| Less accumulated depreciation | (130,322) | (126,960) |
| Nonutility property, net | 51,540 | 54,902 |
| Restricted cash | - | 195,000 |
| Current assets: | | |
| Cash and cash equivalents | 4,186,044 | 1,842,380 |
| Accounts receivable: | | |
| Electricity | 3,141,291 | 2,851,006 |
| Affiliates | 1,653,221 | 1,257,353 |
| Other | 298,205 | 268,532 |
| Total accounts receivable | 5,092,717 | 4,376,891 |
| Less allowance for uncollectible accounts | (2,464,345) | (2,120,787) |
| Net accounts receivable | 2,628,372 | 2,256,104 |
| Fuel and supplies | 3,867,933 | 2,663,490 |
| Prepayments | 7,361 | 34,611 |
| Total current assets | 10,689,710 | 6,796,585 |
| Total assets | $ 20,615,125 | $ 17,761,375 |

See accompanying notes to financial statements.

## MARSHALLS ENERGY COMPANY, INC.

Statements of Net Assets, Continued
September 30, 2007 and 2006

| LIABILITIES AND NET ASSETS (DEFICIENCY) | 2007 | 2006 |
|---|---|---|
| Net assets (deficiency): | | |
| Invested in capital assets, net of related debt | $ 1,631,202 | $ 1,865,874 |
| Restricted | 373,056 | 439,971 |
| Unrestricted (deficiency) | (8,887,086) | (5,556,092) |
| Total net assets (deficiency) | (6,882,828) | (3,250,247) |
| Commitment and contingencies | | |
| Long-term debt | 18,194,956 | 12,706,140 |
| Current liabilities: | | |
| Short-term debt | - | 3,000,000 |
| Current portion of long-term debt | 1,743,841 | 2,934,062 |
| Accounts payable - fuel | 2,867,741 | - |
| Accounts payable - other | 99,730 | 128,463 |
| Payable to affiliates | 756,138 | 1,187,375 |
| Accrued building and engine repairs | 3,406,431 | - |
| Accrued taxes | 156,218 | 178,589 |
| Other current and accrued liabilities | 272,898 | 876,993 |
| Total current liabilities | 9,302,997 | 8,305,482 |
| Total liabilities | 27,497,953 | 21,011,622 |
| Total net assets (deficiency) and liabilities | $ 20,615,125 | $ 17,761,375 |

See accompanying notes to financial statements.

## MARSHALLS ENERGY COMPANY, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| Utility operations: | | |
| Operating revenues | $ 13,734,688 | $ 11,513,582 |
| Operating expenses: | | |
| Cost of power | 13,597,123 | 13,341,441 |
| Administrative and general | 1,494,544 | 1,388,057 |
| Depreciation and amortization | 1,005,621 | 1,088,841 |
| Distribution operations | 1,005,312 | 893,650 |
| Taxes | 229,087 | 291,318 |
| Distribution maintenance | 133,325 | 148,810 |
| Total operating expenses | 17,465,012 | 17,152,117 |
| Operating loss from utility operations | (3,730,324) | (5,638,535) |
| Nonutility operations: | | |
| Operating revenues: | | |
| Fuel and gas sales | 8,121,580 | 9,500,398 |
| Other | 241,572 | 258,640 |
| Total operating revenues | 8,363,152 | 9,759,038 |
| Operating expenses: | | |
| Cost of sales | 6,529,830 | 7,175,688 |
| Other | 998,536 | 839,095 |
| Total operating expenses | 7,528,366 | 8,014,783 |
| Operating income from nonutility operations | 834,786 | 1,744,255 |
| Operating loss | (2,895,538) | (3,894,280) |
| Nonoperating income (expense): | | |
| RepMar subsidy | 874,250 | 820,000 |
| Interest expense | (1,611,293) | (1,618,686) |
| Total nonoperating (expense) income, net | (737,043) | (798,686) |
| Capital contributions | - | 650,000 |
| Change in net assets | (3,632,581) | (4,042,966) |
| Net assets (deficiency) at beginning of year | (3,250,247) | 792,719 |
| Net assets (deficiency) at end of year | $ (6,882,828) | $ (3,250,247) |

See accompanying notes to financial statements.

**MARSHALLS ENERGY COMPANY, INC.**

Statements of Cash Flows
Years Ended September 30, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from customers | $ 21,597,763 | $ 21,420,294 |
| Cash payments to suppliers for goods and services | (20,866,544) | (21,140,321) |
| Cash payments to employees for services | (2,150,520) | (2,028,534) |
| Net cash used for operating activities | (1,419,301) | (1,748,561) |
| Cash flows from noncapital financing activities: | | |
| Subsidy from RepMar | 874,250 | 820,000 |
| Proceeds from short-term borrowings and issuance of long-term debt | 17,380,000 | 5,000,000 |
| Principal paid on short-term borrowings and long-term debt | (15,392,096) | (1,019,010) |
| Interest paid on short-term borrowings and long-term debt | (1,126,134) | (909,229) |
| Net cash provided by noncapital financing activities | 1,736,020 | 3,891,761 |
| Cash flows from capital and related financing activities: | | |
| Capital contributions | - | 650,000 |
| Acquisition and construction of capital assets | (204,216) | (373,000) |
| Principal paid on long-term debt (RUS) | (689,309) | (511,971) |
| Interest paid on long-term debt (RUS) | (684,866) | (583,123) |
| Insurance claim proceeds | 3,410,336 | - |
| Net cash provided by (used for) capital and related financing activities | 1,831,945 | (818,094) |
| Net change in cash and cash equivalents | 2,148,664 | 1,325,106 |
| Cash and cash equivalents at beginning of year | 2,037,380 | 712,274 |
| Cash and cash equivalents at end of year | $ 4,186,044 | $ 2,037,380 |
| Reconciliation of operating loss to net cash used for operating activities: | | |
| Operating loss | $ (2,895,538) | $ (3,894,280) |
| Adjustments to reconcile operating loss to net cash used for operating activities: | | |
| Depreciation and amortization | 1,048,591 | 1,130,048 |
| Provision for uncollectible accounts receivable | 449,396 | 7,204 |
| (Increase) decrease in assets: | | |
| Accounts receivable: | | |
| Electricity | (396,123) | 128,125 |
| Affiliates | (395,868) | (156,656) |
| Other | (29,673) | 176,305 |
| Materials and supplies | (1,204,443) | (1,077,862) |
| Prepayments | 27,250 | (23,920) |
| Increase (decrease) in liabilities: | | |
| Accounts payable - fuel | 2,867,741 | - |
| Accounts payable - other | (28,733) | 159,811 |
| Payable to affiliates | (431,237) | 1,131,302 |
| Accrued taxes | (22,371) | 148,817 |
| Other current and accrued liabilities | (408,293) | 522,545 |
| Net cash used for operating activities | $ (1,419,301) | $ (1,748,561) |

See accompanying notes to financial statements.

## MARSHALLS ENERGY COMPANY, INC.

Statements of Cash Flows, Continued
Years Ended September 30, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| Summary disclosure of noncash activities: | | |
| Transfer of accounts payable to long-term debt: | | |
| Accounts payable | $ - | $ (5,558,137) |
| Accrued interest | - | (197,159) |
| Long-term debt | - | 5,755,296 |
| | $ - | $ - |

See accompanying notes to financial statements.

(1) Organization

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

MEC's articles of incorporation have authorized the issuance of 100,000 shares of $1 par value common stock. RepMar owns 75,000 of these shares and MEC retains the remaining 25,000 shares in treasury. These amounts are included in unrestricted net assets in the accompanying statements of net assets.

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

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

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

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

(2) Summary of Significant Accounting Policies

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

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

(2) Summary of Significant Accounting Policies, Continued

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 modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB 34, equity is presented in the following net asset categories:

- Invested in capital assets - capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.

- Restricted net assets - resources in which MEC is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.

- 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 total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Cash and Cash Equivalents

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

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents, Continued

For purposes of the statements of net assets and cash flows, cash and cash equivalents is defined as cash on hand, cash held in demand accounts, and time certificates of deposit maturing within ninety days. As of September 30, 2007 and 2006, cash and cash equivalents are $4,186,044 and $2,037,380, respectively, and the corresponding bank balances are $3,924,547 and $1,983,991, respectively. Of bank balances as of September 30, 2007 and 2006, $3,917,903 and $1,981,399, respectively, are maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, bank deposits in the amount of $100,000 are FDIC insured. MEC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

All receivables are due from government agencies, businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. Management determines the adequacy of the allowance for uncollectible accounts based upon review of the aged accounts receivable. The allowance is established through a provision for bad debts charged to expense.

Fuel and Supplies

Fuel and supplies are valued at the lower of cost (first-in, first-out) or market (net realizable value). Bulk fuel inventories held on consignment for power plant use and for resale are not reflected in the accompanying statements of net assets.

Plant and Nonutility Property

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

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

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

(2) Summary of Significant Accounting Policies, Continued

Restricted Net Assets

During the years ended September 30, 2007 and 2006, MEC received from RepMar $0 and $650,000, respectively, for installation of solar power systems in the outer islands. At September 30, 2007 and 2006, the unspent portion of these funds was $373,056 and $439,971, respectively.

New Accounting Standards

During fiscal year 2007, MEC implemented GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements of MEC.

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 MEC.

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 MEC.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. 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 MEC.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures-an Amendment of GASB Statements No. 25 and 27*, which amends applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27 *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions.* The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of MEC.

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

### New Accounting Standards, Continued

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MEC.

## (3) Restricted Cash

MEC has restricted a reserve cash deposit as of September 30, 2006 in the amount of $195,000, that collateralizes certain debt. The loan requires MEC to establish a restricted reserve account in an amount of not less than three months of loan payments.

## (4) Fuel and Supplies

Fuel and supplies at September 30, 2007 and 2006, consist of the following:

| | 2007 | 2006 |
|---|---|---|
| Distribution and power plant supplies | $ 1,093,203 | $ 1,331,978 |
| Lubricants | 139,897 | 31,345 |
| Fuel | 2,634,833 | 1,300,167 |
| | $ 3,867,933 | $ 2,663,490 |

## (5) Capital Assets

Capital asset activity for the years ended September 30, 2007 and 2006, was as follows:

| | 2007 | | | |
|---|---|---|---|---|
| | October 1, 2006 | Additions | Deletions | September 30, 2007 |
| Utility Plant: | | | | |
| Power plant engines | $ 14,720,739 | $ - | $ - | $ 14,720,739 |
| Plant and machinery | 1,809,672 | 5,960 | - | 1,815,632 |
| Vehicles | 888,421 | 70,528 | (247,963) | 710,986 |
| Leasehold improvements | 641,012 | - | - | 641,012 |
| Residences | 548,284 | - | - | 548,284 |
| Fences and seawalls | 371,702 | - | - | 371,702 |
| Leasehold land | 330,000 | - | - | 330,000 |
| Solar power systems | 327,869 | 305,927 | - | 633,796 |
| Furniture and fixtures | 180,205 | 24,355 | - | 204,560 |
| Nonutility Plant: | | | | |
| LPG terminal | 181,862 | - | - | 181,862 |
| | 19,999,766 | 406,770 | (247,963) | 20,158,573 |
| Less accumulated depreciation and amortization | (9,512,136) | (1,048,591) | 247,963 | (10,312,764) |
| | 10,487,630 | (641,821) | - | 9,845,809 |
| Construction work-in-progress | 282,160 | 103,373 | (305,927) | 79,606 |
| | $ 10,769,790 | $ (538,448) | $ (305,927) | $ 9,925,415 |

## (5) Capital Assets, Continued

| | 2006 | | | |
|---|---|---|---|---|
| | October 1, 2005 | Additions | Deletions | September 30, 2006 |
| Utility Plant: | | | | |
| Power plant engines | $ 14,720,739 | $ - | $ - | $ 14,720,739 |
| Plant and machinery | 1,787,661 | 22,011 | - | 1,809,672 |
| Vehicles | 868,421 | 20,000 | - | 888,421 |
| Leasehold improvements | 641,012 | - | - | 641,012 |
| Residences | 548,284 | - | - | 548,284 |
| Fences and seawalls | 371,702 | - | - | 371,702 |
| Leasehold land | 330,000 | - | - | 330,000 |
| Solar power systems | - | 327,869 | - | 327,869 |
| Furniture and fixtures | 174,374 | 5,831 | - | 180,205 |
| Nonutility Plant: | | | | |
| LPG terminal | 181,862 | - | - | 181,862 |
| | 19,624,055 | 375,711 | - | 19,999,766 |
| Less accumulated depreciation and amortization | (8,382,088) | (1,130,048) | - | (9,512,136) |
| | 11,241,967 | (754,337) | - | 10,487,630 |
| Construction work-in-progress | 284,871 | 325,158 | (327,869) | 282,160 |
| | $ 11,526,838 | $ (429,179) | $ (327,869) | $ 10,769,790 |

## (6) Taxes Payable

Pursuant to the Income Tax Act of 1989, as amended by the Income Tax Amendment Act of 1991, sales of electricity by public utility companies are exempt from gross revenue tax. MEC is therefore required to pay gross revenue tax on all revenue with the exception of electricity sales at the rate of 3%. As of September 30, 2007 and 2006, MEC is liable for gross revenue tax to RepMar amounting to $94,257 and $148,130, respectively.

Pursuant to the Import Duties Act of 1989, as amended by the Import Duties (Amendment) Act of 1996, MEC is exempted from import duties. Pursuant to the Import Duties (Amendment) Act, 2005, no import duty shall be levied on residual fuel oils and diesel fuel imported by MEC solely for the purpose of power generation. MEC is, however, required to pay import duty on diesel fuel imported for resale.

## (7) Short-Term Debt

Short-term debt consists of ninety-day promissory notes drawn on a $3 million bank line of credit, with interest at 2.5% over the bank reference rate and guaranteed unconditionally by RepMar. Notes outstanding as of September 30, 2007 and 2006 were $0 and $3,000,000, respectively.

The change in short-term debt during the years ended September 30, 2007 and September 30, 2006, is as follows:

| 2007 | | | |
|---|---|---|---|
| Balance October 1,2006 | Additions | Payments | Balance September 30, 2007 |
| $ 3,000,000 | $ 5,380,000 | $ 8,380,000 | $ - |

(7) Short-Term Debt, Continued

| 2006 | | | |
|---|---|---|---|
| Balance October 1, 2005 | Additions | Payments | Balance September 30, 2006 |
| $ - | $ 8,500,000 | $ 5,500,000 | $ 3,000,000 |

The line was closed during 2007 upon acquisition of a $12 million term loan.

(8) Long-Term Debt

Long-term debt at September 30, 2007 and 2006, is as follows:

| | 2007 | 2006 |
|---|---|---|
| On November 18, 1997, MEC entered into a loan agreement with the Federal Financing Bank (FFB) in the amount of $12.5 million for the construction of a new power plant, with loan repayments guaranteed by the Rural Utilities Service (RUS). MEC is required to submit drawdown requests to RUS for approval of loan advances. Interest rates are calculated based on the FFB rates at the date of the loan advances and range from 5.49% to 7.25% per annum. Principal and interest are payable in quarterly installments of $273,770 through January 2, 2018. The mortgage notes have been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MEC, and have been collateralized by a leasehold mortgage and security agreement over the assets of MEC. These notes are subject to certain coverage ratio requirements. MEC is not in compliance with these ratio requirements as of September 30, 2007 and 2006. | $ 8,214,607 | $ 8,903,916 |
| On April 28, 2006, MEC entered into a debt repayment agreement with a fuel company for unpaid invoices including related interest in the amount of $5,755,296, with interest at 18%. Originally, principal and interest are payable in 6 monthly equal payments of $200,000 and in 18 monthly payments of $322,307. $3,210,664 of this debt was refinanced through acquisition of a $12 million loan on May 25, 2007. | - | 5,090,475 |
| On January 13, 2006, MEC entered into a bank loan agreement of $2 million for purchase of diesel fuel. Interest is calculated at 2.5% over the bank's reference rate adjusted on the first day of the month following a change. The minimum reference rate is 7.5% per annum. During fiscal year 2006, interest rates ranged from 10% to 10.75% per annum. Principal and interest are payable in monthly equal payments of $64,500 to January 10, 2009. The note has been unconditionally guaranteed by RepMar, under which the bank shall exercise a lien upon and right of set-off against money, securities, deposits and property of RepMar in possession of the bank in the event of default. A portion of this note, in the amount of $1,226,490, was subsequently refinanced through acquisition of a $12 million loan on May 25, 2007. | - | 1,645,811 |

## (8) Long-Term Debt, Continued

| | 2007 | 2006 |
|---|---|---|
| On May 25, 2007, MEC obtained a bank loan of $12 million to refinance debts to a fuel supplier and a commercial bank and to finance working capital requirements. The loan is amortized over a period of 10 years and matures in 3 years. Interest is calculated at 1.75% over the bank's reference rate with a minimum rate of 6.5%. During fiscal year 2007, the interest rate was 7.5% per annum. Principal and interest are payable in monthly equal payments of $160,000 to May 1, 2010. The loan is guaranteed, unconditionally and absolutely, by RepMar. | 11,724,190 | - |
| | 19,938,797 | 15,640,202 |
| Less current installments | (1,743,841) | (2,934,062) |
| Long-term debt | $ 18,194,956 | $ 12,706,140 |

Changes in long-term debt during the years ended September 30, 2007 and 2006 are as follows:

2007

| Long-Term Debt: | Balance October 1, 2006 | Additions | Reductions | Balance September 30, 2007 | Balance due in One Year |
|---|---|---|---|---|---|
| RUS loan | $ 8,903,916 | $ - | $ 689,309 | $ 8,214,607 | $ 582,177 |
| Fuel vendor debt | 5,090,475 | - | 5,090,475 | - | - |
| Commercial bank loan | 1,645,811 | 12,000,000 | 1,921,621 | 11,724,190 | 1,161,664 |
| | $15,640,202 | $12,000,000 | $7,701,405 | $19,938,797 | $1,743,841 |

2006

| Long-Term Debt: | Balance October 1, 2005 | Additions | Reductions | Balance September 30, 2006 | Balance due in One Year |
|---|---|---|---|---|---|
| RUS loan | $ 9,415,887 | $ - | $ 511,971 | $ 8,903,916 | $ 550,389 |
| Fuel vendor debt | - | 5,755,296 | 664,821 | 5,090,475 | 1,940,984 |
| Commercial bank loan | - | 2,000,000 | 354,189 | 1,645,811 | 442,689 |
| | $ 9,415,887 | $ 7,755,296 | $ 1,530,981 | $ 15,640,202 | $ 2,934,062 |

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

| Year ending September 30, | Principal | Interest | Total |
|---|---|---|---|
| 2008 | $ 1,743,841 | $ 1,415,974 | $ 3,159,815 |
| 2009 | 1,793,031 | 1,222,062 | 3,015,093 |
| 2010 | 1,924,057 | 1,091,041 | 3,015,098 |
| 2011 | 2,064,930 | 950,163 | 3,015,093 |
| 2012 | 2,019,421 | 721,901 | 2,741,322 |
| 2013-2017 | 9,850,548 | 1,623,241 | 11,473,789 |
| 2018 | 542,969 | 13,015 | 555,984 |
| | $ 19,938,797 | $ 7,037,397 | $ 26,976,194 |

The above reflects the amortization of the bank loan over a ten year period, which is the current arrangement with the lender. The loan matures in three years and management believes that due to the RepMar guarantee, the loan will be extended at the end of the initial three year period.

## (9) Related Party Transactions

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

Transactions for the years ended September 30, 2007 and 2006, and the related receivables from and payables to affiliates, are as follows:

| | 2007 | | | |
|---|---|---|---|---|
| | Revenues | Expenses | Receivables | Payables |
| RepMar | $ 2,593,010 | $ 485,797 | $ 482,560 | $ 571,730 |
| Majuro Water and Sewer Company, Inc. | 300,697 | 2,692 | 768,587 | 17,428 |
| Marshall Islands Social Security Administration | 42,511 | 179,643 | 6,207 | 120,482 |
| Majuro Resort, Inc. | 391,784 | 18,254 | 143,675 | - |
| Kwajalein Atoll Joint Utility Resources | 2,840,602 | - | - | 7,943 |
| Other | 1,488,833 | 134,006 | 252,192 | 38,555 |
| | $ 7,657,437 | $ 820,392 | $ 1,653,221 | $ 756,138 |

| | 2006 | | | |
|---|---|---|---|---|
| | Revenues | Expenses | Receivables | Payables |
| RepMar | $ 1,636,398 | $ 609,458 | $ 200,817 | $ 1,076,366 |
| Majuro Water and Sewer Company, Inc. | 269,562 | 7,038 | 770,960 | 462 |
| Marshall Islands Social Security Administration | 54,080 | 224,807 | 11,944 | 110,470 |
| Majuro Resort, Inc. | 315,075 | 4,175 | 89,613 | 77 |
| Other | 1,570,719 | 133,825 | 184,019 | - |
| | $ 3,845,834 | $ 979,303 | $ 1,257,353 | $ 1,187,375 |

For the years ended September 30, 2007 and 2006, MEC received capital contributions from RepMar of $0 and $650,000, respectively. During the years ended September 30, 2007 and 2006, MEC received operating subsidies from RepMar of $874,250 and $820,000, respectively.

As of September 30, 2007 and 2006, MEC maintained a demand deposit account with an affiliated financial institution of $6,644 and $2,592, respectively.

For the years ended September 30, 2007 and 2006, MEC increased allowance for doubtful debts amounting to $321,857 and $0, respectively, representing allowance for receivable from MWSC.

(10) Commitment and Contingencies

Commitment

On June 22, 2006, MEC entered into a five-year fuel supply contract with SK Networks Co., Ltd. commencing January 2007 through December 2011. Under the fuel supply contract, MEC's minimum purchase obligation shall be 13,000,000 United States gallons per year.

Contingencies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of MEC as a going concern. However, MEC has sustained substantial operating losses in recent years. In addition, MEC has used a substantial amount of working capital in its operations. Further, at September 30, 2007, total liabilities exceed total assets by $6,882,828. Management acknowledges that it is currently dependent on RepMar and its affiliates to pay for actual services rendered in order to maintain MEC as a going concern. Should RepMar and its affiliates choose to discontinue payment for services rendered, MEC management may have to consider alternative measures including, among other possibilities, an increase in electricity and fuel rates to maintain MEC as a going concern.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net assets at September 30, 2007, is dependent upon continued operations of MEC, which in turn is dependent upon MEC's ability to meet its future debt service requirements, and the success of future operations. Management believes that actions presently being taken to revise MEC's operating requirements, which include entering into new fuel supply contracts with fishing companies, aggressively collecting past due accounts, and maintaining the approved pricing template allowing MEC to automatically adjust tariffs for movements in world oil prices, provide the opportunity for MEC to continue as a going concern.

MEC is a party to several legal proceedings arising from its operations; however, no provision for any liability was made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.

(11) Risk Management

MEC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. MEC usually elects to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. However, as of September 30, 2007, MEC is self-insured for any losses that could befall its capital assets. Insurance coverage is only obtained for fuel inventory and its fuel delivery operations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

During fiscal year 2007, MEC received insurance proceeds of $3,410,336 for fire damages to its power plant building and engines. Insurance proceeds were netted against estimated repair costs to put back the assets into service. Accrued building and engine repairs expense as of September 30, 2007 amounted to $3,406,431.

(12) Subsequent Events

MEC increased electricity tariff rates effective December 1, 2007, January 1, 2008, and April 1, 2008.

# MARSHALLS ENERGY COMPANY, INC.

## Statement of Revenue and Expenses
## Year Ended September 30, 2007

| | Generation | Distribution | Contracts | Tank Farm | Jaluit | Wotje | Solar | MEC Gas | Admin. | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | | | | | |
| Fuel and gas sales | $ - | $ - | $ - | $7,647,856 | $ 505 | $ - | $ - | $ 473,219 | $ - | $ 8,121,580 |
| Cost of sales | - | - | - | 6,349,585 | - | - | - | 180,245 | - | 6,529,830 |
| Gross profit on sales | - | - | - | 1,298,270 | 505 | - | - | 292,974 | - | 1,591,750 |
| Electric and service billings | 13,744,026 | - | - | - | 185,841 | 116,290 | 10,118 | - | - | 14,056,275 |
| Other income | 11,221 | 78,099 | 22,800 | 13,729 | 16,301 | 295 | 25,707 | 685 | 72,735 | 241,572 |
| Total electricity sales and other income | 13,755,247 | 78,099 | 22,800 | 13,729 | 202,142 | 116,585 | 35,825 | 685 | 72,735 | 14,297,847 |
| Total net operating revenue | 13,755,247 | 78,099 | 22,800 | 1,311,999 | 202,647 | 116,585 | 35,825 | 293,659 | 72,735 | 15,889,597 |
| Operating expenses: | | | | | | | | | | |
| Fuel and lubes | 11,269,698 | - | - | - | 282,292 | - | - | - | - | 11,551,990 |
| Salaries, wages and benefits | 867,568 | 458,384 | 4,950 | 97,295 | 170,444 | 129,299 | 13,752 | 38,000 | 617,480 | 2,397,171 |
| Repairs and maintenance | 801,366 | 610,735 | - | 115,988 | 57,104 | 20,049 | 3,152 | 86,894 | 82,407 | 1,777,694 |
| Depreciation and amortization | 801,993 | 73,057 | - | 26,448 | 1,686 | 23,076 | 32,056 | 16,247 | 73,752 | 1,048,316 |
| Freight | 67,469 | 67,263 | - | 74,000 | - | 32,747 | 35 | 97,617 | 5,036 | 344,166 |
| Office | 3,675 | 1,619 | - | 1,031 | 22,137 | 5,263 | 14 | - | 144,440 | 178,179 |
| Gross revenue tax | 57 | 195 | - | 258,816 | 448 | - | - | 14,139 | 1,322 | 274,977 |
| Bad debts | 321,587 | - | - | - | - | - | - | - | 127,809 | 449,396 |
| Insurance | 60,618 | 15,346 | - | 25,314 | 6,528 | 7,563 | 513 | 2,955 | 19,792 | 138,631 |
| Diesel import tax | - | - | - | 185,817 | - | - | - | - | - | 185,817 |
| Staff training | - | - | - | - | - | - | - | - | 28,286 | 28,286 |
| Laundry and uniforms | 18,065 | 7,376 | - | 108 | 5,080 | 3,621 | - | - | 2,192 | 36,441 |
| Equipment rental | 8,132 | 592 | | 5,655 | | | - | 1,332 | | 15,711 |
| Travel | 7,453 | 2,588 | - | - | 745 | - | - | - | 101,732 | 112,517 |
| Communications | 8,878 | 4,704 | - | 571 | - | 224 | - | 1,230 | 57,285 | 72,891 |
| Entertainment | - | - | - | - | - | - | - | - | 1,730 | 1,730 |
| Professional fees | - | - | - | 15,329 | - | - | - | - | 19,409 | 34,738 |
| Advertising | - | - | - | - | - | - | - | - | 8,492 | 8,492 |
| Bank fees | 526 | | | | | | | | 59,769 | 60,295 |
| Miscellaneous | 29,748 | 1,566 | - | 585 | - | - | - | 305 | 35,492 | 67,697 |
| Total operating expenses | 14,266,832 | 1,243,425 | 4,950 | 806,955 | 546,465 | 221,842 | 49,523 | 258,718 | 1,386,426 | 18,785,135 |
| Operating income (loss) | (511,584) | (1,165,326) | 17,850 | 505,043 | (343,818) | (105,257) | (13,698) | 34,941 | (1,313,691) | (2,895,538) |
| Non-operating income (expense): | | | | | | | | | | |
| Subsidies | 455,000 | - | - | - | 271,750 | 147,500 | - | - | - | 874,250 |
| Interest expense | (539,996) | - | - | - | - | - | - | - | (1,071,297) | (1,611,293) |
| | (84,996) | - | - | - | 271,750 | 147,500 | - | - | (1,071,297) | (737,043) |
| Change in net assets | $ (596,580) | $(1,165,326) | $17,850 | $ 505,043 | $ (72,068) | $ 42,243 | $ (13,698) | $ 34,941 | $ (2,384,988) | $(3,632,581) |

See accompanying independent auditors' report.