MARSHALLS ENERGY COMPANY, INC.

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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

MARSHALLS ENERGY COMPANY, INC.
(A Component Unit of the Republic of the Marshall Islands)

Years Ended September 30, 2015 and 2014
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Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshalls Energy Company, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshalls Energy Company, Inc. (MEC), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshalls Energy Company, Inc. as of September 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The Other Supplementary Information is the responsibility of MEC's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2016, on our consideration of MEC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MEC's internal control over financial reporting and compliance.

Deloitte + Touche LLP

June 29, 2016

Marshalls Energy Company, Inc. (MEC) herewith presents a discussion and analysis of the company's financial performance for the fiscal year ended 30th September, 2015. It is to be read in conjunction with the financial statements following this section.

FINANCIAL HIGHLIGHTS

MEC's net position increased by $1.25 million in fiscal year 2015 compared to an increase of $0.29 million in fiscal year 2014. The increase in net position is attributed to the operating earnings of $1.0 million and $0.25 million in capital contributions.

In 2015, total net utility operating revenues were $16.4 million, a decrease of $3.0 million in comparison to $19.4 million in net utility operating revenues in 2014.

Total utility operating expenses were $17.5 million and $21.5 million in 2015 and 2014, respectively. The decrease of $4.0 million or the same rate of 19% is attributed to the fuel cost component and is in line with expectations due to the drop in global fuel prices. Fuel cost continues to be a significant component of generation operating costs and represents 51% of total operating costs in 2015 compared to 61% in 2014.

Total net operating revenues for non-utility operations, fuel sales being the major component, were $20.5 million and $31.8 million in 2015 and 2014, respectively. Total non-utility operating expenses decreased by $11.3 million, with $18.4 million and $29.7 million in 2015 and 2014, respectively. The decrease is attributed to the decrease in global fuel prices.

In 2015, MEC was awarded the State Bulk Fuel Revolving Fund Grant from RUS in the amount of $1.0 million for the establishment of a bulk fuel revolving loan fund to assist in reducing the cost of securing adequate fuel supplies for its operations. The amount recognized as grant at the end of 2015 was approximately $80,000. No grants were received in 2014.

MEC received subsidies of $0.5 million in 2015 compared to subsidies of $0.7 million in 2014 as cost recovery for the operations of Wotje and Jaluit power plants. Subsidies for Jaluit and Wotje amounted to $237,584 and $237,584 respectively.

FINANCIAL ANALYSIS OF MEC

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of MEC's financial condition. MEC's net position (deficiency) reflect the difference between total assets and total liabilities. An increase in net position over time normally indicates an improvement in financial condition. As illustrated in the figures below, MEC's net position increased for the year ended 30th September, 2015.

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

	2015	2014	2013
Current and other assets	$ 10,241,880	$ 13,067,748	$ 10,793,135
Capital assets	11,419,574	9,862,843	10,265,146
Total assets	21,661,454	22,930,591	21,058,281
Current liabilities	13,929,341	14,863,715	11,790,255
Non-current liabilities	10,417,977	12,006,371	13,495,449
Total liabilities	24,347,318	26,870,086	25,285,704
Net assets:			
Invested in capital assets	7,203,824	4,646,317	3,361,388
Restricted	-	-	404,006
Deficiency	(9,889,688)	(8,585,812)	(7,992,817)
Total net deficiency	$ (2,685,864)	$ (3,939,495)	$ (4,227,423)

Total assets decreased by $1.3 million (or 6%) from 2014 to 2015 and increased by $1.9 million in 2013 to $22.9 million in 2014. The decrease in total assets in 2015, mainly relates the net impact of increase in non-current assets of $1.5 million, decrease in Net accounts receivable of $2.4 million and decrease in Fuel and supplies of $0.6 million. The increase in total assets by $2.8 million in 2014 is mainly attributed to the construction work in progress for engine#3 (under the ADB grant) and engine#7 (under the RUS grant). Repair works done on engine#3 and #7 continued into 2015 with Construction work in progress amounting to $5.2 million and $4.5 million in 2015 and 2014, respectively.

Construction work in progress as of September 30, 2015 consisted of engine repair works for engine#3 (under ADB grant) of $1.4 million and engine#7 (under RUS grant) for $3.2 million, and tank refurbishment works for $0.5 million.

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

Total liabilities decreased from $26.9 million in 2014 to $24.3 million in 2015 in the amount of $2.5 million. The overall decrease of $2.5 million (or 9%) is mainly attributable to the net impact of the decrease in Accounts Payable - Fuel of $2.8 million, decrease in short-term debt of $0.2 million, increase in Accounts Payables - other of $1.3 million, increase in accrued taxes of $1.0 million and decrease in Long-term debt of $1.6 million compared to 2014.

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

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

	2015	2014	2013
Revenue:			
Utility revenue	$ 16,362,849	$ 19,435,950	$ 22,109,307
Non-utility revenue	20,534,640	31,788,150	31,058,754
Total Revenue	36,897,489	51,224,100	53,168,061
Expenses:			
Utility expenses	17,459,394	21,469,083	21,576,592
Non-utility expenses	18,439,898	29,665,616	29,393,776
Total expenses	35,899,292	51,134,699	50,970,368
Operating profit / (loss)	998,197	89,401	2,197,693
RMI subsidy	475,168	694,400	800,000
Other grants	80,880	-	284,062
Other income	-	-	1,630,394
Interest expense	(555,692)	(495,873)	(468,121)
Capital contributions	255,078	-	3,023,296
	255,434	198,527	5,269,631
Change in net deficiency	$ 1,253,631	$ 287,928	$ 7,467,324

The Statements of Revenue, Expenses and Changes in Net Position identify the various revenue and expense items that contributed to the change in net position. MEC's total revenue decreased in 2015 by $14.3 million (or 28%) to a total of $36.9 million compared to $51.2 million in 2014.

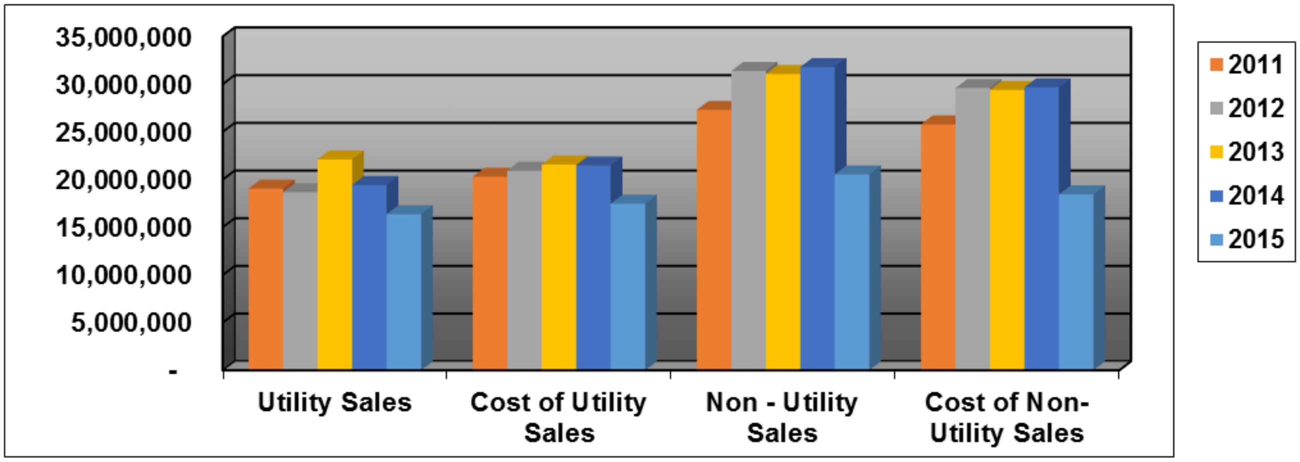
Utility revenue decreased by $3.0 million (or 16%) from $19.4 million in 2014 to $16.4 million in 2015. The decrease is attributed to the decrease in tariff and decrease in household consumption pattern which is expected with the shift from conventional meters to the prepaid meters. In 2014, the decrease related to a decrease in Electric revenue of $0.5 million and additional allowance for $0.7 million.

Non-Utility revenue is mainly fuel sales. Non-utility revenue decreased by $11.3 million (or 35%) in 2015 to $20.5 million compared to $31.8 million in 2014. The decrease relates to decrease in global fuel prices and a slight decrease in fuel sales volume in 2015.

The operating income in 2015 was approximately $998,197 compared to an operating income of $89,401 and $2.2 million in 2014 and 2013, respectively.

Total expenses decreased by $15.2 million from $51.1 million in 2014 to $35.9 million in 2015. Non-utility expenses decreased by $11.2 million while utility expenses decreased by $4.0 million.

The graphic below shows the major components of revenue from 2011 through to 2015:



MEC FOCUS IN THE COMING FISCAL YEAR

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

- Revision and update of MEC's CRP and Strategic Plan. The CRP was an aggressive roadmap in MEC's efforts to revive the company's core operations and financials within a three year timeframe from 2010.

- While most of the objectives were completed by the end of 2015, there are several goals and objectives which are at various stages of progress and completion and these will be rolled over to the newly updated CRP which will be revised during 2016.

- Enforcement of disconnection policy. As long as MEC allows outstanding accounts receivable balances to age, the greater MEC's risk and exposure is to bad debt and continued cash flow constraints.

- Complete construction work in progress for engine#3 and #7 works

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

Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the report on the audit of MEC's financial statements dated September 22, 2015. That Discussion and Analysis explains the major factors impacting the 2014 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, 2015. Should the reader have questions regarding the information included in this report, or wish to request additional financial information, please contact the Marshalls Energy Company, Inc. General Manager at P.O. Box 1439, Majuro, Marshall Islands, MH 96960.

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

Statements of Net Position
September 30, 2015 and 2014

ASSETS	2015	2014
Utility plant:		
Electric plant in service	$ 25,883,284	$ 23,676,066
Less accumulated depreciation and amortization	(19,717,090)	(18,418,791)
	6,166,194	5,257,275
Construction work in progress	5,152,249	4,516,063
Net utility plant	11,318,443	9,773,338
Nonutility property	181,862	181,862
Less accumulated depreciation	(178,902)	(175,464)
Nonutility property, net	2,960	6,398
Total capital assets	11,321,403	9,779,736
Due from employees, net of current portion	98,171	83,107
Total non-current assets	11,419,574	9,862,843
Current assets:		
Cash	546,983	530,983
Time certificates of deposit	1,124,752	1,017,926
Accounts receivable:		
Electricity	5,204,353	6,547,899
RepMar and other affiliates	5,223,346	6,242,251
Due from employees, current portion	38,746	28,744
Other	2,134,585	1,979,893
Total accounts receivable	12,601,030	14,798,787
Less allowance for uncollectible accounts	(6,173,573)	(5,963,723)
Net accounts receivable	6,427,457	8,835,064
Fuel and supplies	1,970,180	2,569,491
Prepayments	172,508	114,284
Total current assets	10,241,880	13,067,748
Total assets	$ 21,661,454	$ 22,930,591

See accompanying notes to financial statements.

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

Statements of Net Position, Continued
September 30, 2015 and 2014

NET POSITION AND LIABILITIES	2015	2014
Net position:		
Net investment in capital assets	$ 7,203,824	$ 4,646,317
Unrestricted	(9,889,688)	(8,585,812)
Total net position	(2,685,864)	(3,939,495)
Commitment and contingencies		
Noncurrent liabilities:		
Long-term debt	10,417,977	12,006,371
Current liabilities:		
Short-term debt	2,351,607	2,571,141
Current portion of long-term debt	1,425,585	1,468,986
Accounts payable - fuel	2,787,718	5,603,257
Accounts payable - other	1,931,418	608,494
Payable to affiliates	594,331	1,240,710
Accrued building and engine repairs	300,000	300,000
Accrued taxes	1,633,901	672,986
Other accrued liabilities	862,238	344,076
Unearned income	2,042,543	2,054,065
Total current liabilities	13,929,341	14,863,715
Total liabilities	24,347,318	26,870,086
Total net position and liabilities	$ 21,661,454	$ 22,930,591

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2015 and 2014

	2015	2014
Utility operations:		
Operating revenues:		
Electricity sales	$ 16,516,116	$ 20,080,765
Other	42,434	62,298
	16,558,550	20,143,063
Provision for doubtful accounts	(195,701)	(707,113)
Total net operating revenues	16,362,849	19,435,950
Operating expenses:		
Cost of fuel	8,881,201	13,142,873
Cost of power	3,911,319	3,920,103
Administrative and general	1,803,348	1,716,188
Distribution operations	1,537,237	1,357,131
Depreciation and amortization	1,326,289	1,332,788
Total operating expenses	17,459,394	21,469,083
Operating loss from utility operations	(1,096,545)	(2,033,133)
Nonutility operations:		
Operating revenues:		
Fuel sales	19,628,292	30,519,603
Propane sales	683,457	666,469
Lubricants sales	65,865	61,213
Other	157,026	540,865
Total net operating revenues	20,534,640	31,788,150
Operating expenses:		
Cost of fuel	17,283,138	28,192,596
Cost of propane and lubricants	414,370	451,465
Other	742,390	1,021,555
Total operating expenses	18,439,898	29,665,616
Operating income from nonutility operations	2,094,742	2,122,534
Operating earnings	998,197	89,401
Nonoperating income (expense):		
RepMar subsidy	475,168	694,400
Other grants	80,880	-
Interest expense	(555,692)	(495,873)
Total nonoperating (expense) income, net	356	198,527
Capital contributions:		
Rural Utilities Service	255,078	-
Change in net position	1,253,631	287,928
Net position at beginning of year	(3,939,495)	(4,227,423)
Net position at end of year	$ (2,685,864)	$ (3,939,495)

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	$ 39,303,576	$ 49,900,025
Cash payments to suppliers for goods and services	(32,132,135)	(47,149,604)
Cash payments to employees for services	(2,718,716)	(2,855,128)
Net cash provided by (used for) operating activities	4,452,725	(104,707)
Cash flows from noncapital financing activities:		
Subsidy from RepMar	475,168	694,400
Grants received	80,880	-
Net proceeds from (payments of) short-term debt	(219,534)	2,409,553
Interest paid on short-term debt	(151,598)	(12,541)
Principal paid on long-term debt	(615,954)	(671,411)
Interest paid on long-term debt	(87,065)	(113,541)
Net cash (used for) provided by noncapital financing activities	(518,103)	2,306,460
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,870,343)	(1,441,765)
Capital contributions received	255,078	-
Principal paid on long-term debt	(1,015,841)	(411,867)
Interest paid on long-term debt	(180,690)	(228,030)
Net cash used for capital and related financing activities	(3,811,796)	(2,081,662)
Cash flows from investing activities:		
Net investment in time certificates of deposit	(106,826)	(517,926)
Net change in cash	16,000	(397,835)
Cash at beginning of year	530,983	928,818
Cash at end of year	$ 546,983	$ 530,983
Reconciliation of operating earnings to net cash provided by (used for) operating activities:		
Operating earnings	$ 998,197	$ 89,401
Adjustments to reconcile operating earnings to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,326,289	1,332,788
Provision for doubtful accounts	195,701	707,113
Reversal of construction in progress	-	388,006
(Increase) decrease in assets:		
Accounts receivable:		
Electricity	1,357,695	(272,931)
RepMar and other affiliates	1,018,905	(2,698,029)
Due from employees	(25,066)	23,272
Other	(154,692)	215,680
Fuel and supplies	599,311	(741,500)
Prepayments	(58,224)	(69,254)
Other non-current assets	-	100,000
Increase (decrease) in liabilities:		
Accounts payable - fuel	(2,947,728)	(654,681)
Accounts payable - other	1,322,924	(711,247)
Payable to affiliates	(646,379)	1,255,573
Accrued taxes	616,662	439,300
Other accrued liabilities	860,652	(132,291)
Unearned income	(11,522)	624,093
Net cash provided by (used for) operating activities	$ 4,452,725	$ (104,707)

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued
Years Ended September 30, 2015 and 2014

		2015		2014
Summary disclosure of noncash activities:				
Tax dues offset from RepMar:				
Payable to affiliates	$	-	$	704,399
Electricity receivables		-		(704,399)
	$	-	$	-

See accompanying notes to financial statements.

(1) Organization

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

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

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

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

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

(2) Summary of Significant Accounting Policies

The accounting policies of MEC conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities, specifically proprietary funds.

MEC considers utility and nonutility revenues and costs that are directly related to the generation, transmission and distribution of electricity and fuel sale operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus,* and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the financial statements and notes and modifies certain other financial statement disclosure requirements.

(2) Summary of Significant Accounting Policies, Continued

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

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

- Restricted - result when constraints placed on asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.

- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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

Basis of Accounting

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

Revenue Recognition

Sales of electricity are recorded as billed to customers on a monthly billing cycle basis. Unbilled revenues are not accrued as the most recent meter reading date approximates the end of the reporting period. Revenue from fuel and propane sales is billed to customers on a daily basis based on the actual quantity of fuel and propane delivered.

Cash and Time Certificates of Deposit

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 Time Certificates of Deposit, Continued

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified. As of September 30, 2015 and 2014, the carrying amount of cash and time certificates of deposit was $1,671,735 and $1,548,909, respectively, and the corresponding bank balances were $1,635,078 and $2,124,784, respectively. Of the bank balance amounts, $440,275 and $835,692, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015 and 2014, bank deposits in the amount of $250,000 were FDIC insured. The remaining bank deposits of $1,194,803 and $1,289,092, as of September 30, 2015 and 2014, respectively, were maintained in financial institutions not subject to depository insurance. MEC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, these deposits were exposed to custodial credit risk.

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 collectability 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. Bad debts are written off against the allowance on the specific identification method.

Fuel and Supplies

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

Plant and Nonutility Property

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

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

(2) Summary of Significant Accounting Policies, Continued

Plant and Nonutility Property, Continued

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.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MEC has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. MEC has no items that qualify for reporting in this category.

New Accounting Standards

During the year ended September 30, 2015, MEC implemented the following pronouncements:

- GASB *Statement* No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements did not have a material effect on the accompanying financial statements.

- GASB Statement No. 69, *Government Combinations and Disposals of Government* Operations, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

New Accounting Standards, Continued

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on MEC's financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on MEC's financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on MEC's financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on MEC's financial statements.

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

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on MEC's financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on MEC's financial statements.

Estimates

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

(3) Fuel and Supplies

Fuel and supplies at September 30, 2015 and 2014, consist of the following:

	2015	2014
Distribution and power plant supplies	$ 1,433,816	$ 1,474,121
Fuel	310,374	993,230
Lubricants	225,990	102,140
	$ 1,970,180	$ 2,569,491

(4) Capital Assets

Capital asset activity for the years ended September 30, 2015 and 2014 is as follows:

	2015			
	October 1, 2014	Additions	Reclassifications	September 30, 2015
Utility Plant:				
Power plant engines	$ 15,995,292	$ 51,488	$ 438,390	$ 16,485,170
Plant and machinery	2,636,162	-	(438,390)	2,197,772
Land and building	-	1,846,877	-	1,846,877
Solar power systems	1,110,417	-	-	1,110,417
Vehicles	1,266,149	288,285	(26,939)	1,527,495
Leasehold improvements	641,012	-	-	641,012
Residences	561,073	-	-	561,073
Fences and seawalls	371,702	-	-	371,702
Leasehold land	330,000	-	-	330,000
Furniture and fixtures	764,259	47,507	-	811,766
	23,676,066	2,234,157	(26,939)	25,883,284
Less accumulated depreciation and amortization	(18,418,791)	(1,325,238)	26,939	(19,717,090)
	5,257,275	908,919	-	6,166,194
Construction work-in-progress	4,516,063	1,107,104	(470,918)	5,152,249
	9,773,338	2,016,023	(470,918)	11,318,443
Nonutility Plant:				
LPG terminal	181,862	-	-	181,862
Less accumulated depreciation and amortization	(175,464)	(3,438)	-	(178,902)
	6,398	(3,438)	-	2,960
	$ 9,779,736	$ 2,012,585	$ (470,918)	$ 11,321,403

(4) Capital Assets, Continued

	2014			
	October 1, 2013	Additions	Reclassifications	September 30, 2014
Utility Plant:				
Power plant engines	$ 15,995,292	$ -	$ -	$ 15,995,292
Plant and machinery	2,174,520	23,252	438,390	2,636,162
Solar power systems	1,110,417	-	-	1,110,417
Vehicles	1,243,149	23,000	-	1,266,149
Leasehold improvements	641,012	-	-	641,012
Residences	561,073	-	-	561,073
Fences and seawalls	371,702	-	-	371,702
Leasehold land	330,000	-	-	330,000
Furniture and fixtures	702,331	61,928	-	764,259
	23,129,496	108,180	438,390	23,676,066
Less accumulated depreciation and amortization	(17,092,357)	(1,326,434)	-	(18,418,791)
	6,037,139	(1,218,254)	438,390	5,257,275
Construction work-in-progress	2,856,785	1,333,585	325,693	4,516,063
	8,893,924	115,331	764,083	9,773,338
Nonutility Plant:				
LPG terminal	181,862	-	-	181,862
Less accumulated depreciation and amortization	(169,110)	(6,354)	-	(175,464)
	12,752	(6,354)	-	6,398
	$ 8,906,676	$ 108,977	$ 764,083	$ 9,779,736

In accordance with the Subsidiary Loan Agreement between RepMar and the Asian Development Bank (ADB), MEC created a separate bank account dedicated for repair and maintenance funds (R&M Fund). Starting October 1, 2010, MEC made automatic $35,000 monthly transfers into the R&M Fund from its revenue accounts. Amounts in the R&M Fund shall be used exclusively for repair, maintenance, procurement of spare parts, materials and equipment (and related labor costs) directly related to power generation and distribution. As of September 30, 2015 and 2014, the R&M Fund has a balance of $36,449 and $48,438, respectively.

(5) Long-Term Debt

Long-term debt at September 30, 2015 and 2014 is as follows:

	2015	2014
On November 18, 1997, MEC entered into a loan agreement with the Federal Financing Bank (FFB) in the amount of $12.5 million for the construction of a new power plant, with loan repayments guaranteed by the Rural Utilities Service (RUS). MEC is required to submit drawdown requests to RUS for approval of loan advances. Interest rates are calculated based on the FFB rates at the date of the loan advances and range from 5.49% to 7.25% per annum. Originally, principal and interest are payable in quarterly installments of $273,770 through January 2, 2018. On June 22, 2012, RUS granted a two-year $2 million loan deferment giving MEC a two-year break from having to make payments to RUS. Effective June 22, 2012 through March 31, 2014, interest payments of $25,000 were due quarterly. Thereafter, quarterly payments of $299,121 are due. The loan will mature on December 31, 2019. The mortgage notes have been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MEC, and have been collateralized by a leasehold mortgage and security agreement over the assets of MEC. These notes are subject to certain coverage ratio requirements. MEC is in compliance with these ratio requirements as of September 30, 2015 and 2014.	$ 4,117,579	$ 5,133,420
On September 8, 2010, MEC obtained a subsidiary loan from the Asian Development Bank, through RepMar, of $10 million to pay off a bank loan that was originally procured for operating purposes. This loan will mature on May 31, 2034. Interest is calculated at 1.0% per annum through September 30, 2018 and at 1.5% per annum thereafter. Principal and interest are payable in monthly equal payments of $37,960.	7,725,983	8,102,202
Short-term loan renegotiated to mature on July 20, 2015. Interest is calculated at 7.5% per annum. Principal and interest are payable in monthly equal payments of $27,444.	-	239,735
	11,843,562	13,475,357
Less current installments	(1,425,585)	(1,468,986)
Long-term debt	$ 10,417,977	$ 12,006,371

A separate $2,317,388 grant was awarded for the purpose of funding the purchase of parts for an engine overhaul. As of September 30, 2015 and 2014, grant funds in the cumulative amount of $2,317,388 and $2,062,310, respectively, were drawn down and expended by MEC.

(5) Long-Term Debt, Continued

Changes in long-term debt during the years ended September 30, 2015 and 2014 are as follows:

	2015				
	Balance October 1, 2014	Additions/ Reclassification	Reductions	Balance September 30, 2015	Balance due in One Year
RUS loan	$ 5,133,420	$ -	$ (1,015,841)	$ 4,117,579	$ 1,074,744
Commercial bank loan	239,735	-	(239,735)	-	-
ADB Subsidiary loan	8,102,202	-	(376,219)	7,725,983	350,841
	$ 13,475,357	$ -	$ (1,631,795)	$ 11,843,562	$ 1,425,585

	2014				
	Balance October 1, 2013	Additions/ Reclassification	Reductions	Balance September 30, 2014	Balance due in One Year
RUS loan	$ 5,545,287	$ -	$ (411,867)	$ 5,133,420	$ 881,900
Commercial bank loan	538,692	-	(298,957)	239,735	239,736
ADB Subsidiary loan	8,474,656	-	(372,454)	8,102,202	347,350
	$ 14,558,635	$ -	$ (1,083,278)	$ 13,475,357	$ 1,468,986

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

Year ending September 30,	Principal	Interest	Total
2016	$ 1,425,585	$ 197,627	$ 1,623,212
2017	1,521,707	130,373	1,652,080
2018	1,612,074	39,987	1,652,061
2019	1,041,661	126,269	1,167,930
2020	364,380	91,140	455,520
2021-2025	1,906,134	371,466	2,277,600
2026-2030	2,054,496	223,104	2,277,600
2031-2034	1,917,525	62,958	1,980,483
	$ 11,843,562	$ 1,242,924	$ 13,086,486

(6) Short-Term Debt

On June 5, 2015, MEC obtained a $1,500,000 short-term bank loan to finance fuel purchases, interest at 7.5% per annum, principal and interest payable in lump sum on December 31, 2015. The short-term loan is collateralized by MEC's receivables and fuel inventory. At September 30, 2015, outstanding balance of short-term bank loan amounts to $1,500,000.

On February 5, 2015, MEC obtained a $2,000,000 short-term bank loan to finance fuel purchases, interest at 7.5% per annum, principal and interest payable in eleven monthly installments of $175,000 and $167,607 as final monthly installment, due on February 29, 2016. The short-term loan is collateralized by MEC's $1,031,222 time certificate of deposit, receivables and fuel inventory. At September 30, 2015, outstanding balance of the loan amounts to $851,607.

(6) Short-Term Debt, Continued

On June 6, 2014, MEC obtained a $1,000,000 short-term bank loan to finance fuel purchases, interest at 4.5% per annum, principal and interest payable in monthly installments of $85,350, due on May 31, 2015. The short-term loan is collateralized by MEC's $271,166 time certificate of deposit. Outstanding balance of loan amounted to $0 and $671,141 as of September 30, 2015 and 2014, respectively.

On July 7, 2014, MEC obtained a $1,900,000 short term bank loan to finance the construction of a warehouse, interest at 7.5% per annum, due and payable on December 31, 2014. The loan is collateralized by receivables and RepMar bank accounts. Outstanding balance of loan amounted to $0 and $1,900,000 as of September 30, 2015 and 2014, respectively.

Changes in short-term debt during the years ended September 30, 2015 and 2014, are as follows:

2015			
Balance October 1, 2014	Additions	Reductions	Balance September 30, 2015
$ 2,571,141	$ 3,500,000	$ (3,719,534)	$ 2,351,607

2014			
Balance October 1, 2013	Additions	Reductions	Balance September 30, 2014
$ 161,588	$ 2,900,000	$ (490,447)	$ 2,571,141

(7) Employee Retirement Plan

MEC has implemented a defined contribution retirement savings plan (the Plan) for its employees, whereby employees eighteen years and older are eligible to participate upon one year of employment. Plan participants may contribute any amount of their salaries to be matched 100% by MEC up to 5% of base salaries. Withdrawal from the Plan occurs upon termination of employment, death, or financial hardship. Plan assets are held in a trust fund administered by a trustee in accordance with the trust agreement. Management has the authority to establish or amend Plan provisions and contribution requirements. MEC contributed $77,326 and $76,592 to Plan participant accounts during the years ended September 30, 2015 and 2014, respectively, and total plan assets were $732,448 and $646,435 as of September 30, 2015 and 2014, respectively.

(8) Related Party Transactions

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

(8) Related Party Transactions, Continued

Pursuant to the Income Tax Act of 1989, as amended, 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, 2015 and 2014, MEC is liable for gross revenue tax to RepMar amounting to $1,633,901 and $672,986, respectively.

Pursuant to the Import Duties (MEC Exemption) Act of 2008, enacted on October 6, 2008, MEC is exempt from paying import duty on all types of fuel imported into RepMar, including fuel imported for power generation and for commercial resale. Previously, pursuant to the Import Duties (Amendment) Act, 2005, no import duty was levied on residual fuel oils and diesel fuel imported by MEC solely for the purpose of power generation. MEC was, however, required to pay import duty on diesel fuel imported for commercial resale. As of September 30, 2015 and 2014, MEC has no liability for import duties to RepMar representing import duty owed prior to October 6, 2008.

Transactions for the years ended September 30, 2015 and 2014, and the related receivables from and payables to affiliates, are as follows:

	2015			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 2,669,161	$ 903,608	$ 409,545	$ 451,651
Kwajalein Atoll Joint Utilities Resources, Inc.	3,220,336	-	2,294,338	-
Majuro Water and Sewer Company, Inc.	391,656	580	1,832,052	2,475
Marshall Islands Social Security Administration	36,204	244,182	12,674	114,108
Majuro Resort, Inc.	435,766	44,054	370,947	1,945
Other	1,853,054	227,750	303,790	24,152
	$ 8,606,177	$ 1,420,174	$ 5,223,346	$ 594,331

	2014			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 3,386,241	$ 991,695	$ 1,262,918	$ 1,050,145
Kwajalein Atoll Joint Utilities Resources, Inc.	4,321,630	-	2,754,626	-
Majuro Water and Sewer Company, Inc.	531,824	25,296	1,517,776	1,520
Marshall Islands Social Security Administration	53,453	235,952	12,674	122,593
Majuro Resort, Inc.	541,372	73,802	374,634	-
Other	2,431,332	281,064	319,623	66,452
	$ 11,265,852	$ 1,607,809	$ 6,242,251	$ 1,240,710

The allowance for uncollectable accounts pertaining to receivables from affiliates amounted to $2,157,216 and $1,483,100 as of September 30, 2015 and 2014, respectively.

During the years ended September 30, 2015 and 2014, MEC received operating subsidies from RepMar of $475,168 and $694,400, respectively.

(8) Related Party Transactions, Continued

On August 6, 2010, the Asian Development Bank (ADB) approved a $1,760,000 grant to RepMar financed by the Japan Fund for Poverty Reduction. The purpose of the grant was to extend access to clean electricity to disconnected and unconnected poor households through the Improved Energy Supply For Poor Households Project. MEC was the Implementing Agency and administered grant funds drawn down against the grant. During the years ended September 30, 2015 and 2014, no grant funds were drawn down and expended by MEC.

During the years ended September 30, 2015 and 2014, unpaid withholding taxes and gross receipts taxes of MEC was offset against MEC's receivables from RepMar of $0 and $704,399, respectively.

On December 5, 2013, MEC entered into an agreement with RepMar to reconcile reciprocal accounts receivable and liability balances, offsetting such balances in lieu of cash payment for settlement. As of September 30, 2015 and 2014, there is a remaining balance of $140,651 available for RepMar to use to partially offset its payment of utility bills from MEC. This amount has not yet been applied by MEC and is recorded in payable to affiliates as of September 2015 and 2014.

(9) Commitment and Contingencies

Commitment

MEC purchases petroleum products from Winson Oil International (HK) Ltd. (Winson) on a consignment basis whereby Winson continues to hold ownership and title to the product while it is held in storage at the MEC terminal storage tanks. Title and risk on the product remains with Winson until the product passes the boundary of the MEC terminal. The value of consignment petroleum products as of September 30, 2015 and 2014 amounted to $4,613,792 and $4,759,276, respectively. MEC assumes responsibility for the proper and safe storage/handling of the product while under MEC storage. However, MEC carries insurance coverage on such consignment inventories.

Contingencies

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

In view of these matters, realization of a major portion of the assets in the accompanying statements of net position at September 30, 2015, is dependent upon continued operations of MEC, which in turn is dependent upon MEC's ability to meet its future debt service requirements, and the success of future operations. Management believes that actions presently being taken to revise MEC's operating requirements, which include entering into new fuel supply contracts with fishing companies, aggressively collecting past due accounts, and maintaining the approved pricing template allowing MEC to automatically adjust tariffs for movements in world oil prices, provide the opportunity for MEC to continue as a going concern.

(9) Commitment and Contingencies, Continued

In the efforts to maintain MEC as a going concern, MEC management implemented its three (3) year Comprehensive Recovery Plan (CRP) in 2010. While most of the objectives were completed by the end of 2015, there were several goals and objectives which were at various stages of progress and completion and these will be rolled over upon revision and update of CRP in the coming year.

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

(10) Risk Management

MEC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. MEC has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Insurance proceeds of $3,410,336 received in 2007 for fire damage to MEC’s power plant building and engines were recorded net of estimated repair costs. Accrued remaining building and engine repairs amounted to $300,000 at September 30, 2015 and 2014.

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

Schedule of Revenues, Expenses and Changes in Net Position by Division
Year Ended September 30, 2015

	Generation	Distribution	Tank Farm	Jaluit	Wotje	Solar	MEC Gas	Admin.	TOTAL
Operating revenues:									
Fuel, propane and lube sales	$ -	$ -	$ 19,685,560	$ 7,492	$ 825	$ -	$ 683,457	$ -	$ 20,377,334
Cost of sales	-	-	17,245,005	-	-	-	390,278	-	17,635,283
Gross profit on sales	-	-	2,440,555	7,492	825	-	293,179	-	2,742,051
Electric and service billings	15,995,994	-	-	216,488	126,119	177,515	-	-	16,516,116
Service and other income	-	47,883	73,850	11,605	746	280	4,410	60,926	199,700
Less provision for doubtful accounts	(195,701)	-	-	-	-	-	-	-	(195,701)
Total electricity sales and other income	15,800,293	47,883	73,850	228,093	126,865	177,795	4,410	60,926	16,520,115
Total net operating revenue	15,800,293	47,883	2,514,405	235,585	127,690	177,795	297,589	60,926	19,262,166
Operating expenses:									
Advertising	-	-	-	-	-	-	-	8,800	8,800
Auto POL and maintenance	39,534	66,466	8,890	1,509	4,177	10,625	11,617	44,375	187,193
Bank charges	-	-	-	-	35	-	-	49,979	50,014
Communications	25,269	27,129	1,134	240	280	285	397	34,467	89,201
Depreciation and amortization	964,844	65,825	12,239	7,333	7,453	74,028	30,286	164,281	1,326,289
Donations	-		-	-	-		-	14,257	14,257
Entertainment	1,014	143	27	406	336	160	-	36,432	38,518
Equipment rental	11,064	(55)	400	15,000	-	-	-	388	26,797
Freight and handling	75,389	27,864	83,332	18,874	60,789	1,384	-	5,947	273,579
Fuel and lubes	8,809,212	13,209	134,656	171,138	119,477	-	-	-	9,247,692
Gross revenue tax	-	1,476	592,520	585	34	-	20,939	1,108	616,662
Import tax	63,651	11,567	5,326	-	-	-	2,002	2,231	84,777
Insurance	147,381	22,600	76,282	7,427	9,548	-	3,405	32,330	298,973
Lease rental	320	-	-	3,708	6,108	-	-	9,875	20,011
Membership and other fees	165	-	-	-	-	-	-	63,846	64,011
Office	148,471	41,199	9,079	1,312	1,705	228	595	182,938	385,527
Professional and consulting fees	300	-	-	-	-	-	-	86,240	86,540
Repairs and maintenance	948,228	711,471	22,822	60,836	41,236	1,000	42,245	28,579	1,856,417
Safety and uniforms	25,045	4,170	-	-	-	-	-	1,451	30,666
Salaries, wages and benefits	1,034,717	531,218	127,574	166,563	143,222	128,346	44,312	949,420	3,125,372
Security services	15,879	-	51,312	-	-	-	-	1,991	69,182
Staff training	21,957	500	-	-	-	-	-	11,021	33,478
Travel	19,648	16,451	-	1,691	1,131	8,228	-	111,175	158,324
Utility	67,363	7,918	598	16,927	-	8,250	-	70,633	171,689
Total operating expenses	12,419,451	1,549,151	1,126,191	473,549	395,531	232,534	155,798	1,911,764	18,263,969
Operating income (loss)	3,380,842	(1,501,268)	1,388,214	(237,964)	(267,841)	(54,739)	141,791	(1,850,838)	998,197
Nonoperating income (expense):									
RepMar subsidy	-	-	-	237,584	237,584	-	-	-	475,168
Other grants	80,880	-	-	-	-	-	-	-	80,880
Interest expense	-	-	-	-	-	-	-	(555,692)	(555,692)
Capital contributions:									
Rural Utilities Service	255,078	-	-	-	-	-	-	-	255,078
	335,958	-	-	237,584	237,584	-	-	(555,692)	255,434
Change in net position	$ 3,716,800	$ (1,501,268)	$ 1,388,214	$ (380)	$ (30,257)	$ (54,739)	$ 141,791	$ (2,406,530)	$ 1,253,631

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Marshalls Energy Company, Inc.:

We have audited, 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, the financial statements of the Marshalls Energy Company, Inc. (MEC), which comprise the statement of net position as of September 30, 2015, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MEC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MEC's internal control. Accordingly, we do not express an opinion on the effectiveness of MEC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as items 2015-002 through 2015-004 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MEC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2015-005.

MEC's Response to Findings

MEC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. MEC's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

June 29, 2016

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Marshalls Energy Company, Inc.:

Report on Compliance for Each Major Federal Program

We have audited Marshalls Energy Company, Inc. (MEC's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of MEC's major federal programs for the year ended September 30, 2015. MEC's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MEC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MEC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of MEC's compliance.

Basis for Qualified Opinion on 10.857 State Bulk Fuel Revolving Fund Grants

As described in the accompanying Schedule of Findings and Questioned Costs, MEC did not comply with requirements regarding CFDA 10.857 State Bulk Fuel Revolving Fund Grants as described in item 2015-001 for Reporting. Compliance with such requirement is necessary, in our opinion, for MEC to comply with the requirements applicable to that program.

Qualified Opinion on 10.857 State Bulk Fuel Revolving Fund Grants

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, MEC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 10.857 State Bulk Fuel Revolving Fund Grants for the year ended September 30, 2015.

Unmodified Opinion on 10.850 Rural Electrification Loans and Loan Guarantees

In our opinion, MEC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 10.850 Rural Electrification Loans and Loan Guarantees for the year ended September 30, 2015.

Report on Internal Control Over Compliance

Management of MEC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MEC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MEC's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies.

MEC's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. MEC's responses were not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

We have audited the financial statements of MEC as of and for the year ended September 30, 2015, and have issued our report thereon dated June 29, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte + Touche LLP

June 29, 2016

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

Program Title		Federal Expenditures	
Funds received in a direct capacity:			
U.S. Department of Agriculture: Rural Utilities Service			
CFDA # 10.850 Rural Electrification Loans and Loan Guarantees	$	-	Note 1
CFDA # 10.857 State Bulk Fuel Revolving Fund Grants		1,000,000	
CFDA # 10.859 High Energy Cost Grants		255,078	
Total U.S. Department of Agriculture	$	1,255,078	

Note 1
CFDA # 10.850 Rural Electrification Loans and Loan Guarantees represents direct loan assistance with an objective of assuring that people in eligible rural areas have access to electric services and to assist borrowers in implementation of demand-side management, energy efficiency and conservation programs and on-grid and off-grid renewable energy systems. On May 1, 1997, Marshalls Energy Company, Inc. entered into a Rural Utilities Service Loan Contract in the amount of $12.5 million with the United States of America acting by and through the Administrator of the Rural Utilities Service. As of September 30, 2015, the amount outstanding and payable under this loan totals $4,117,579.

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting.

MARSHALLS ENERGY COMPANY, INC.
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2015

PART I - SUMMARY OF AUDITORS' RESULTS SECTION

Financial Statements

1.	Type of auditors' report issued:	Unmodified
	Internal control over financial reporting:	
2.	Material weakness(es) identified?	Yes
3.	Significant deficiency(ies) identified?	None reported
4.	Noncompliance material to financial statements noted?	Yes

Federal Awards

	Internal control over major federal programs:	
5.	Material weakness(es) identified?	Yes
6.	Significant deficiency(ies) identified?	None reported
7.	Type of auditors' report issued on compliance for major federal programs:	
	10.850 Rural Electrification Loans and Loan Guarantees	Unmodified
	10.857 State Bulk Fuel Revolving Fund Grants	Qualified
8.	Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes
9.	Identification of major federal programs:	

CFDA #	Name of Federal Program or Cluster
10.850	Rural Electrification Loans and Loan Guarantees
10.857	State Bulk Fuel Revolving Fund Grants

10.	Dollar threshold used to distinguish between Type A and Type B Programs:	$300,000
11.	Auditee qualified as low-risk auditee?	No

PART II- FINANCIAL STATEMENT FINDINGS SECTION

Finding Number	Findings
2015-002	Purchase of Building
2015-003	Inventory
2015-004	Construction-in-Progress
2015-005	Local Non-compliance

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

Finding Number	CFDA #	Findings	Questioned Costs
2015-001	10.857	Reporting	$-0-

Finding No.:	2015-001
Federal Agency:	U.S. Department of Agriculture
CFDA Program:	10.857 State Bulk Fuel Revolving Fund Grants
Area:	Reporting
Questioned Costs:	$0

Criteria: The Grant Agreement states the following:

Section 10.8. The Grantee shall provide periodic progress reports as required by the grantor. The Grantee shall report on the expenditure of Grant Funds and any non-Federal project funds in quarterly financial reports and progress reports during the term of the grant. The Grantee shall attach Form SF425 "Federal Financial Report" for these reports. The financial status report shall show how the grant funds have been used to date and shall include a summary of loans approved, funds disbursed, payments of principal and interest received, communities served, and an accounting of expenditures made and remaining undisbursed Federal funds. Quarterly reports shall be due thirty days from the end of each quarter ending March 31, June 30, September 30, and December 31 of each year.

Condition: Form SF 425, Federal Financial Report and report on the expenditure of Grant Funds for September 2015 were not prepared or provided to the Grantor.

No questioned costs result from this condition.

Cause: The cause of the above condition is inadequate controls to comply with the criteria.

Effect: The effect of the above condition is noncompliance with the criteria.

Recommendation: We recommend management strengthen and improve internal control policies that govern compliance with the criteria.

Auditee Response and Corrective Action Plan: MEC agrees with this finding and recommendation and acknowledges the importance of submission of timely reports as per grant agreement. Since the time of audit MEC has updated filing of all reports and SF425 forms as per the grant agreement with adequate supporting documentation.

MEC will ensure that adequate internal controls are established to ensure compliance with required grant conditions.

Finding No.: 2015-002
Area: Purchase of Building

Criteria: An appraisal or valuation should be performed to support the appropriateness of the agreed upon value of a purchased building.

Condition: An independent appraisal or valuation to support the purchase of an $800,000 building was not obtained.

Cause: The cause of the above condition is a lack of an independent asset appraisal or valuation associated with the building purchase.

Effect: The effect of the above condition is the uncertainty of the appropriateness of the determination of the building purchase price.

Recommendation: We recommend that management conduct an independent appraisal or valuation of the building to support the appropriateness of the purchase price.

Auditee Response and Corrective Action Plan: The purchase price of the property was agreed to by management and owner and was endorsed and signed off by the Board of Directors.

In terms of value, it should be noted that the amount paid was not just for the existing MEC buildings. The amount includes the master ground lease for 1.38 acres of land (the entire area around MEC office) at very concessionary rates. The term goes to 2032 with the right to renew at a set rate until 2082.

The value in the purchase is the master ground lease in MEC's name, not just the buildings. This gives MEC the long term option to stay as long as it wants, and repair existing or build a new building if it chooses.

Due diligence was carried out by MEC's legal counsel in comparing leases in the DUD area of Majuro which were at higher rates. MEC understood this opportunity and seized it rather than trying to negotiate a short term extension of the existing MEC sublease which would have been a more substantial amount.

Auditor Response: We reiterate the criteria and recommend that the purchase price be supported by an independent appraisal or valuation.

Finding No.: 2015-003
Area: Inventory

Criteria: Adequate accounting controls necessitate that inventories be appropriately recorded, monitored and valued based on existing accounting policy. Information maintained by the accounting department and the inventory management system at the inventory department should be reconciled.

Condition:

1. Of eighteen items tested, the following exceptions were noted:

Item #	Item Code	Quantity per Audit at 9/30/15	Quantity per Valuation Report at 9/30/15	Unit Cost	Difference
1	DB0010	153	133	$ 9	$ 184
2	DSK020	66	72	$ 139	($ 834)
3	DC0056	683	726	$ 4	($ 176)
4	DPV330	62	64	$ 47	($ 94)
5	DE0002	11	13	$ 445	($ 890)
6	DE0115	21	25	$ 861	($ 3,444)
7	DZ318	16	0	$ 15	$ 243
8	DZ654	103	104	$ 1	($ 1)
9	DZ120	17	16	$ 186	$ 186

2. We noted the following unit cost exception:

Item #	Item Code	Ave. Unit Cost per Audit at 9/30/15	Ave. Unit Cost per Valuation Report at 9/30/15	Quantity	Difference
1	DTX049	$ 3,081	$ 5,995	9	($ 26,226)

Cause: It appears that there is a lack of a review process of inventory valuation reports that resulted in erroneous movements and costs which incorrectly updated total costs.

Effect: The effect of the condition is a required adjustment of inventory.

Recommendation: Management should adopt and implement appropriate internal control policies over recording, monitoring, and valuation of inventories.

Auditee Response and Corrective Action Plan: MEC agrees with this finding and recommendation and management understands the potential impact or risk of the finding to internal control over its financial statements.

At the time of fiscal year-end inventory count, MEC was still in the process of moving inventory items from various locations at the power plant, distribution shop, tank farm and solar warehouse to the newly built warehouse. During this time, we understand that there could have been misplacement or miscounted items with all the movement and set-up that was happening.

Finding No.: 2015-003, Continued
Area: Inventory

Auditee Response and Corrective Action Plan:, Continued

Inventory items are now all at a centralized location and are properly organized.

MEC management has since taken necessary steps to resolve the issues and ensure that proper internal control policies and procedures regarding inventory supplies are established and communicated. There will be close coordination and communication between procurement department, operations, and accounts department to ensure timely and accurate recording, monitoring and valuation of inventories.

Finding No.: 2015-004
Area: Construction-in-Progress

Criteria: Adequate internal control policies and procedures should be established to require monitoring of labor hours allocated to the construction of Deutz engine No. 7.

Condition: The number of hours allocated to the construction of Deutz engine No. 7 is not supported by adequate time records.

Cause: The cause of the above condition is the lack of established policies and procedures pertaining to time record keeping related to the construction of Deutz engine No.7.

Effect: The effect of the above condition is uncertainty as to the appropriateness of the amount of salaries and wages initially capitalized.

Recommendation: We recommend that management adopt policies and procedures pertaining to the capitalization of salaries and wages allocated to the construction of Deutz engine No.7.

Auditee Response and Corrective Action Plan: Daily records are being maintained at the power plant indicating hours worked on respective engines. However, at time of timesheet preparation, proper coding to the respective engines were not entered and hence man-hours for engine#7 were not properly recorded. Since work had started back in 2012 and no formal method of tracking man-hours was established, management had to give its best realistic estimate on man-hours worked on engine#7.

In the absence of formal method of record keeping, the method used was to first identify employees who worked on #7, and after a brief examination of the man-hours record in daily records, an estimate for hours worked per week was derived and reviewed by the CTO who made further changes depending on projects that were also happening at the time and determined a more realistic man-hours worked per employee on engine#7 and costs associated with that.

For future reporting, management will try it's best to ensure that a more formal method of record keeping of man-hours is established and accurately recorded to ascertain appropriateness of capitalized amount.

Finding No.: 2015-005
Area: Local Non-compliance

Criteria: Section 125 of RepMar's Procurement Code states that bids shall be opened publicly in the presence of one or more witnesses at the time and place designated in the Invitation for Bids.

Condition: MEC conducted bid opening at the MEC Central Warehouse Project in private.

Cause: The cause of the above condition is the lack of established policies and procedures requiring compliance with RepMar's Procurement Code.

Effect: The effect of the above condition noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish policies and procedures to be in compliance with RepMar's Procurement Code.

Auditee Response and Corrective Action Plan: MEC disagrees with this finding as MEC's legal counsel has advised that MEC is not subject to the provisions of the RMI Procurement Code, in whole or in part and it has been past practice that internal procurement procedures were followed.

The auditor has advised MEC to obtain the opinion of the Attorney General on whether the REPMAR Procurement Code is applicable to MEC and at the time of this response MEC was not able to obtain the Attorney General's opinion.

Auditor Response: We reiterate the criteria and recommend management obtain an opinion from the Office of Attorney General regarding the applicability of the RMI Procurement Code to MEC.

Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2015

The status of unresolved prior audit findings and questioned costs are disclosed within the Schedule of Findings and Questioned Costs section of this report.