

*Financial Statements, Required Supplementary  
Information, and Report on Internal Control and  
Compliance*

**Marshalls Energy Company, Inc.**  
(A Component Unit of the Republic of the Marshall Islands)

*Years ended September 30, 2023 and 2022  
with Report of Independent Auditors*



**Shape the future  
with confidence**

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Financial Statements, Required Supplementary Information,  
and Report on Internal Control and Compliance

Years ended September 30, 2023 and 2022

**Contents**

Report of Independent Auditors.....	1
Management’s Discussion and Analysis .....	4
Audited Basic Financial Statements	
Statements of Net Position.....	11
Statements of Revenues, Expenses and Changes in Net Position .....	13
Statements of Cash Flows .....	15
Notes to Financial Statements.....	17
Report on Internal Control and Compliance	
Report of Independent Auditors on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	37
Schedule of Findings and Responses .....	39



Shape the future  
with confidence

Ernst & Young (RMI), Inc.  
P.O. Box 1288  
Majuro, Republic of the Marshall  
Islands 96960

Tel: 692 625 7387  
ey.com

## Report of Independent Auditors

RMI Combined Utilities Board of Directors  
Marshalls Energy Company, Inc.

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of the business-type activities of Marshalls Energy Company, Inc. (MEC), a component unit of the Republic of the Marshall Islands, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise MEC's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of MEC as of September 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MEC, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MEC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of the internal control relevant to the audit 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 MEC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MEC's ability to continue as a going concern for a reasonable period of time.

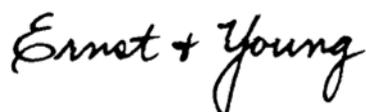
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting policies generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2025, 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 solely 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 effectiveness of MEC's 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.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

November 18, 2025

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis

Years ended September 30, 2023 and 2022

Marshalls Energy Company, Inc. (MEC or the Company) herewith presents a discussion and analysis of the Company's financial performance for the fiscal years ended September 30, 2023 and 2022. It is to be read in conjunction with the financial statements following this section.

**FINANCIAL HIGHLIGHTS**

MEC is the utilities Company generating, distributing and selling electricity to customers on Majuro, Jaluit and Wotje. MEC also sells petroleum products such as diesel, lubricants, gasoline, and LPG to its customers.

**Financial Performance**

Following the challenging financial results in FY2022, MEC demonstrated a recovery in FY2023, achieving notable improvements across key performance areas. MEC ended the year with a positive change in net position of \$10.5 million. Key financial highlights for the year include:

- **Revenues:** Total revenues for the year were \$47.3 million, representing an increase of \$2.1 million (or 5%) compared to \$45.2 million in 2022. Utility revenues increased by \$2 million (or 10%) to \$21.5 million, whilst non-utility revenue (mainly diesel sales) increased by \$0.1 million (or 0.4%) to \$25.8 million. The increase in non-utility revenue was driven by a combination of higher fuel prices and increase in gallons sold despite global fuel price increases.

Category	FY2023	FY2022	Variance	% Change
Utility Revenue	\$21.53 million	\$19.55 million	+\$1.98 million	+10.2%
Non-Utility Revenue	\$25.79 million	\$25.68 million	+\$0.11 million	+ 0.4%
<b>Total Revenue</b>	<b>\$47.32 million</b>	<b>\$45.23 million</b>	<b>+\$2.09 million</b>	<b>+ 4.6%</b>

- **Expenses:** Total expenses for the year were \$48.4 million, a decrease of \$5.01 million (or -9%), utility expenses were \$24.9 million in 2023, a decrease of \$1.4 million (or 5%) from \$26.3 in 2022. Non-utility expenses were \$23.4 million in 2023, a decrease of \$3.7 million (or 13.5%) from FY 2022 expenses of \$27.1 million, the decrease was mainly due to the decrease in global fuel prices. Overall, expenses decreased in FY23 compared to FY22.

Category	FY2023	FY2022	Variance	% Change
Utility Expenses	\$24.97 million	\$26.32 million	-\$1.35 million	-05.1%
Non-Utility Expenses	\$23.43 million	\$27.09 million	-\$3.66 million	-13.5%
<b>Total Expenses</b>	<b>\$48.40 million</b>	<b>\$53.41 million</b>	<b>-\$5.01 million</b>	<b>-09.4%</b>

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

**FINANCIAL HIGHLIGHTS, continued**

- **Global fuel prices and tariff adjustment:** The war between Russia and Ukraine that began in February 2022 caused global fuel prices to surge sharply, while MEC was unable to adjust its tariff rates accordingly. As a result, the cost of fuel for utility operations increased by 102%, compared to only an 8% increase in revenue — which was largely unrelated to fuel costs. However, in FY2023, global fuel prices began to ease and gradually returned to more normal levels toward the latter part of the year, helping to somewhat stabilize MEC's operating costs and contribute to the overall improvement in financial performance.
- **Operating loss:** MEC reported an operating loss of \$1.1 million in FY2023. Utility operations suffered a loss of \$3.4 million which was mainly attributable to global fuel prices and no tariff adjustment for fuel cost recovery. The non-utility operations experienced a profit of \$2.3 million and was a result of decreased provision for doubtful accounts charged during the year relating to a related party compared to FY22 which amounted to \$3.3 million.
- **Nonoperating income:** Nonoperating income was \$1.4 million. MEC received operational subsidies from RepMar of approximately \$0.5 million in FY2023. These operational subsidies were received as cost recovery for the operations of Wotje and Jaluit power plants. MEC also received Japan Government Non-Project Grant Aid of \$976k for powerplant fuel support.
- **Capital contributions:** During the year MEC recorded capital contributions of \$10.2 million, \$8.0 million related to ADB grant for tank farm refurbishment and tank farm seal project under Energy Security Project (ESP) and \$2.2 million relating to the WB grant under the Sustainable Renewable Development Project (SEDeP).

**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 reflects 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 30<sup>th</sup> September 2023.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

**FINANCIAL ANALYSIS OF MEC, continued**

Statements of Net Position

The Summary Statements of Net Position for MEC are presented below:

**Summary Statements of Net Position**  
As of September 30

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
<b>Assets:</b>					
Current and other assets	\$ 29,841,784	\$ 30,909,156	\$ (1,067,372)	(3.5)%	\$ 32,661,372
Capital assets	28,754,667	21,720,120	7,034,547	32.4%	10,503,906
<b>Total assets</b>	<b>58,596,451</b>	<b>52,629,276</b>	<b>5,967,175</b>	<b>11.3%</b>	<b>43,165,278</b>
<b>Liabilities:</b>					
Current and other liabilities	18,438,839	22,639,157	(4,200,318)	(18.6)%	13,667,660
Long-term debt	4,722,561	5,104,165	(381,604)	(7.5)%	5,480,032
<b>Total liabilities</b>	<b>23,161,400</b>	<b>27,743,322</b>	<b>(4,581,922)</b>	<b>(16.5)%</b>	<b>19,147,692</b>
<b>Net position:</b>					
Net investment in capital assets	30,894,564	24,187,676	6,706,888	27.7%	17,369,030
Restricted	380,933	175,598	205,335	116.9%	216,674
Unrestricted	4,159,554	522,680	3,636,874	695.8%	6,431,882
<b>Total net position</b>	<b>\$ 35,435,051</b>	<b>\$ 24,885,954</b>	<b>\$ 10,549,097</b>	<b>42.4%</b>	<b>\$ 24,017,586</b>

Total assets increased by \$5.9 million (or 11%) from \$52.6 million in 2022 to \$58.6 million in 2023. Current and other assets decreased by \$1.1 million (or 3.5%) from \$30.9 million in 2022 to \$29.8 million in 2023. Conversely, capital assets increased by \$7 million (or 32%) from \$21.7 million in 2022 to \$28.7 million in 2023.

The decrease in current and other assets of \$1.1 million primarily reflects a decrease in fuel and supplies inventory of \$5 million resulting from lower fuel prices and reduced year-end fuel inventory offset by an increase in cash of \$2 million - mainly due to the establishment of a new ADB bank account and higher cash holdings in the General Fund - and an increase in prepayments and other deposits of \$2.1 million. The increase in capital assets of \$7 million is primarily driven by an \$8 million rise in construction Work-in-Progress (CIP). This growth reflects the continued implementation of major capital projects under the Asian Development Bank (ADB) and World Bank Sustainable Energy Development Project (WB SEDeP) programs. The increase in CIP indicates significant progress in infrastructure and renewable energy investments that are expected to be capitalized upon project completion. Refer to note 5 to the accompanying financial statements for additional information relating to MEC's capital assets.

**Marshalls Energy Company, Inc.**  
(A Component Unit of the Republic of the Marshall Islands)

**Management's Discussion and Analysis, continued**

**FINANCIAL ANALYSIS OF MEC, continued**

Statements of Net Position, continued

Total liabilities decreased by \$4.5 million (or 16.5%) from \$27.7 million in 2022 to \$23.2 million in 2023. Current and other liabilities decreased by \$4.2 million (or 19%) from \$22.6 million in 2022 to \$18.4 million in 2023 while long-term debt decreased by \$0.4 million (or 7.5%) from \$5.1 million in 2022 to \$4.7 million in 2023.

The reduction in current and other liabilities was primarily driven by a decrease in fuel payables of \$3.3 million, consistent with the decline in global fuel prices during the year and reduced year-end fuel inventory. The decrease in long-term debt of \$0.4 million represents continued pay-off of ADB loan. Refer to note 8 to the accompanying financial statements for additional information relating to MEC's long-term debt. In addition, refer to note 12 to the accompanying financial statements for additional information relating to the fuel supply arrangements.

Statements of Revenues, Expenses and Changes in Net Position

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

**Summary Statements of Revenues, Expenses and Changes in Net Position**  
Years ended September 30

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Operating revenues:					
Utility operations	\$ 21,532,544	\$ 19,546,778	\$ 1,985,766	10.2%	\$ 18,147,656
Nonutility operations	<u>25,792,019</u>	<u>25,680,688</u>	<u>111,331</u>	0.4%	<u>16,919,345</u>
Total operating revenues	<u>47,324,563</u>	<u>45,227,466</u>	<u>2,097,097</u>	4.6%	<u>35,067,001</u>
Operating expenses:					
Utility operations	24,969,268	26,317,624	(1,348,356)	(5.1)%	16,479,522
Nonutility operations	<u>23,428,062</u>	<u>27,089,659</u>	<u>(3,661,597)</u>	(13.5)%	<u>14,266,773</u>
Total operating expenses	<u>48,397,330</u>	<u>53,407,283</u>	<u>(5,009,953)</u>	(9.4)%	<u>30,746,295</u>
Operating loss	(1,072,767)	(8,179,817)	7,107,050	(86.9)%	4,320,706
Nonoperating revenues, net	<u>1,409,357</u>	<u>1,735,837</u>	<u>(326,480)</u>	(18.8)%	<u>577,608</u>
Earnings (loss) before capital contributions	336,590	(6,443,980)	6,780,570	(105.2)%	4,898,314
Capital contributions	<u>10,212,507</u>	<u>7,312,348</u>	<u>2,900,159</u>	39.7%	<u>-</u>
Change in net position	<u>\$ 10,549,097</u>	<u>\$ 868,368</u>	<u>\$ 9,680,729</u>	1114.8%	<u>\$ 4,898,314</u>

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

**FINANCIAL ANALYSIS OF MEC, continued**

Statements of Revenues, Expenses and Changes in Net Position, continued

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 operating revenues increased in 2023 by \$2.1 million (or 5%) to a total of \$47.3 million compared to \$45.2 million in 2022. Utility revenues increased by \$2 million (or 10%) to \$21.5 million, while non-utility revenues - mainly from diesel sales - rose by \$0.1 million (or 0.4%) to \$25.8 million. The overall growth was driven by a modest increase in both regular and cash power electricity sales following a tariff adjustment implemented in early FY2023. The tariff revision was introduced to offset the earlier surge in fuel prices; however, approval was granted only after fuel prices had already begun to decline, reflecting a delayed response due to the need for higher-level authorization. Non-utility revenue increased by \$0.1 million (or 0.4%) from \$25.7 million in 2022 to \$25.8 million in 2023. The increase in non-utility revenue was driven by a combination of higher fuel prices and increase in gallons sold despite global fuel price increases.

MEC's total operating expenses decreased in 2023 by \$5 million (or 9%) to a total of \$48.4 million compared to \$53.4 million in 2022. Utility expenses decreased by \$1.3 million (or 5%) to \$25 million, while non-utility expenses decreased by \$3.7 million (or 13.5%) to \$23.4 million. Utility expenses decreased by \$1.3 million, primarily due to a \$1 million reduction in cost of power expenses, reflecting fewer repair and maintenance activities undertaken in 2023 compared to 2022. In addition, administrative and general expenses declined by \$0.8 million, mainly due to general cost reductions rather than any specific one-time factor. Non-utility expenses decreased by \$3.5 million, from \$27.1 million to \$23.6 million, primarily due to the decline in global fuel prices during the year.

MEC reported an operating loss of \$1.1 million 2023, a significant improvement from the unprecedented loss of \$8.2 million recorded in 2022. The improved result was largely driven by the decline in global fuel prices and the implementation of a modest tariff adjustment aimed at partially offsetting prior cost increases. However, the tariff adjustment was approved after fuel prices had already begun to ease, limiting its impact. As a result, while overall performance improved, the company still experienced an operating loss during the year.

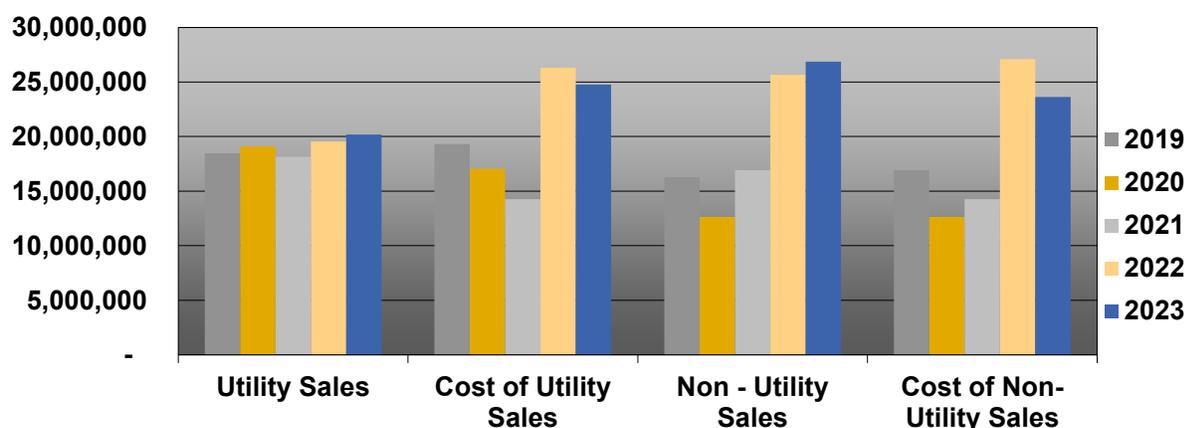
Management's Discussion and Analysis for the year ended September 30, 2022 is set forth in MEC's report on the audit of financial statements, which is dated January 13, 2025. That Management Discussion and Analysis explains the major factors impacting the 2022 financial statements.

Marshall's Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

**FINANCIAL ANALYSIS OF MEC, continued**

The graphic below shows the major components of the Statements of Revenue and Expenses trend for the past five years:



**CAPITAL ASSETS AND DEBT**

Net capital assets increased by \$7 million or 32% from \$21.7 million in 2022 to \$28.7 million in 2023. The increase is due primarily to the \$8 million capitalized CWIP costs associated with the tank farm refurbishment project funded by the ADB and the sustainable energy development project funded by the World Bank less the increase in accumulated depreciation of \$1.5 million. A summary of MEC's capital assets as of September 30, 2023 compared with 2022 and 2021 is presented below:

**Summary Schedule of Capital Assets**  
As of September 30

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Utility plant	\$ 72,996,828	\$ 72,413,789	\$ 583,039	0.8%	\$ 67,840,455
Non-utility plant	209,969	209,969	-	0.0%	209,969
	73,206,797	72,623,758	583,039	0.8%	68,050,424
Accumulated depreciation	(60,885,283)	(59,369,075)	(1,516,208)	2.6%	(58,218,647)
	12,321,514	13,254,683	(933,169)	(7.0)%	9,831,777
CWIP	16,433,153	8,465,437	7,967,716	94.1%	672,129
	<u>\$ 28,754,667</u>	<u>\$ 21,720,120</u>	<u>\$ 7,034,547</u>	32.4%	<u>\$ 10,503,906</u>

Please refer to note 5 to the accompanying financial statements for additional information regarding MEC's capital assets.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Management’s Discussion and Analysis, continued

**CAPITAL ASSETS AND DEBT, continued**

A summary of MEC’s long-term debt as of September 30, 2023 compared with 2022 and 2021 is presented below:

**Summary Schedule of Long-term Debt**  
As of September 30

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Asian Development Bank	\$ 4,722,561	\$ 5,104,165	\$ (381,604)	(7.5)%	\$ 5,480,032

In 2010, MEC obtained a \$10 million loan from the ADB through RepMar for the purpose of paying off a bank loan. This loan matures in 2035. Please refer to note 8 to the accompanying financial statements for additional information regarding MEC’s long-term debt.

**MEC FOCUS IN THE COMING FISCAL YEAR**

Building on the improved performance in FY2023, MEC enters FY2024 with a more stable financial foundation and a cautiously optimistic outlook. Global fuel prices have largely stabilized at moderate levels, which is expected to sustain manageable operating costs throughout the year. Continued implementation of cost-control measures and operational efficiency initiatives will further support financial resilience. On the revenue side, the full-year impact of the FY2023 tariff adjustment is anticipated to strengthen electricity sales performance, while non-utility revenues should remain steady, reflecting consistent demand for diesel and related services. However, any volatility in global fuel markets or delays in cost-recovery tariff adjustments could still pose risks to margins. In addition, major capital projects under the ADB and World Bank programs will continue to progress, leading to higher Construction Work-in-Progress balances and eventual capitalization of key infrastructure assets. These investments are expected to enhance MEC’s generation reliability, reduce long-term operating costs, and support the company’s transition toward renewable energy. Overall, FY2024 is expected to be a year of **stabilization and consolidation**, as MEC focuses on strengthening financial performance, improving collection efficiency, and advancing key strategic infrastructure projects.

**ADDITIONAL INFORMATION**

This discussion and analysis is designed to provide MEC’s customers and other stakeholders with an overview of the company’s operations and financial condition as at September 30, 2023. 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. Chief Executive Officer at P.O. Box 1439, Majuro, Marshall Islands, MH 96960.

Marshall's Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Statements of Net Position

	September 30,	
	2023	2022
<b>Assets</b>		
Current assets:		
Cash	\$ 5,457,193	\$ 3,668,498
Restricted cash	380,933	175,598
Time certificates of deposit	5,213,114	5,125,648
Accounts receivables, net	4,876,426	5,102,450
Fuel and supplies	7,502,735	12,056,942
Deposit on acquisition of supplies	573,964	704,590
Prepayments	260,573	165,367
Security deposit	32,500	23,200
Total current assets	24,297,438	27,022,293
Utility plant:		
Electric plant in service	72,996,828	72,413,789
Less accumulated depreciation and amortization	( 60,844,164 )	( 59,338,454 )
	12,152,664	13,075,335
Construction work in progress	16,433,153	8,465,437
Net utility plant	28,585,817	21,540,772
Nonutility property	209,969	209,969
Less accumulated depreciation	( 41,119 )	( 30,621 )
Nonutility property, net	168,850	179,348
Total capital assets	28,754,667	21,720,120
Lease asset, net	612,528	712,456
Long-term replacement parts	2,747,577	3,174,407
Deposit on acquisition of capital assets	2,184,241	---
Total non-current assets	34,299,013	25,606,983
Total assets	\$ 58,596,451	\$ 52,629,276

See accompanying notes.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Statements of Net Position, continued

	September 30,	
	2023	2022
<b>Liabilities and Net Position</b>		
Current liabilities:		
Current portion of long-term debt	\$ 387,337	\$ 381,574
Accounts payable - fuel	8,197,794	11,513,586
Accounts payable - other	63,850	225,877
Payable to affiliates	1,898,387	2,468,296
Accrued leave, current portion	148,335	162,646
Accrued taxes	15,644	13,037
Advance from fuel supplier, current portion	480,000	480,000
Lease liability, current portion	92,953	99,170
Unearned revenue - power	3,788,040	3,762,896
Unearned revenue - fuel	1,153,861	937,286
Total current liabilities	16,226,201	20,044,368
Long-term debt, net of current portion	4,335,224	4,722,591
Lease liability, net of current portion	514,727	607,681
Counterpart fund payable	1,406,804	1,135,858
Advance from fuel supplier, net of current portion	560,000	1,080,000
Accrued leave, net of current portion	118,444	152,824
Total liabilities	23,161,400	27,743,322
Commitments and contingencies		
Net position:		
Net investment in capital assets	30,894,564	24,187,676
Restricted	380,933	175,598
Unrestricted	4,159,554	522,680
Total net position	35,435,051	24,885,954
Total liabilities and net position	\$ 58,596,451	\$ 52,629,276

See accompanying notes.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Utility operations:		
Operating revenues:		
Electricity sales	\$ 21,494,833	\$ 19,520,759
Other	<u>37,711</u>	<u>26,019</u>
Total net operating revenues	<u>21,532,544</u>	<u>19,546,778</u>
Operating expenses:		
Cost of fuel	14,774,380	14,811,425
Cost of power	4,523,810	5,375,513
Distribution operations	2,227,680	2,191,478
Administrative and general	1,781,762	2,580,758
Depreciation and amortization	<u>1,661,636</u>	<u>1,358,450</u>
Total operating expenses	<u>24,969,268</u>	<u>26,317,624</u>
Operating loss from utility operations	( <u>3,436,724</u> )	( <u>6,770,846</u> )
Nonutility operations:		
Operating revenues:		
Fuel sales	25,783,776	28,129,498
Cargo sales	548,781	---
Lubricants sales	344,580	250,591
Propane sales	222,735	299,066
Charter sales	60,687	---
Other	<u>1,214,226</u>	<u>339,688</u>
	28,174,785	29,018,843
Provision for doubtful accounts	( <u>2,382,766</u> )	( <u>3,338,155</u> )
Total net operating revenues	<u>25,792,019</u>	<u>25,680,688</u>
Operating expenses:		
Cost of fuel	21,407,873	25,728,619
Cost of propane and lubricants	510,032	336,139
Other	<u>1,510,157</u>	<u>1,024,901</u>
Total operating expenses	<u>23,428,062</u>	<u>27,089,659</u>
Operating income (loss) from nonutility operations	<u>2,363,957</u>	( <u>1,408,971</u> )
Operating loss	( <u>1,072,767</u> )	( <u>8,179,817</u> )

See accompanying notes.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Statements of Revenues, Expenses and Changes in Net Position, continued

	Year ended September 30,	
	2023	2022
Nonoperating revenues (expenses):		
Japan Grant Aid	976,352	1,364,508
RepMar subsidies	515,840	496,496
Gain on sale of capital assets	1,101	17,011
Other grants	---	88,398
Contribution to KAJUR	---	( 147,250 )
Interest expense	( 83,936 )	( 83,326 )
Total nonoperating revenues, net	1,409,357	1,735,837
Earnings (loss) before capital contributions	336,590	( 6,443,980 )
Capital contributions:		
Asian Development Bank	8,010,634	2,606,067
World Bank	2,201,873	4,706,281
	10,212,507	7,312,348
Change in net position	10,549,097	868,368
Net position at beginning of year	24,885,954	24,017,586
Net position at end of year	\$ 35,435,051	\$ 24,885,954

*See accompanying notes.*

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Statements of Cash Flows

	Year ended September 30,	
	2023	2022
Cash flows from operating activities:		
Cash received from customers	\$ 47,792,306	\$ 45,076,916
Cash payments to suppliers for goods and services	( 39,899,345 )	( 41,210,149 )
Cash payments to employees for services	( 4,011,266 )	( 3,873,518 )
Net cash provided by (used in) operating activities	3,881,695	( 6,751 )
Cash flows from noncapital financing activities:		
Operating RepMar subsidies received	515,840	496,496
Other grants received	---	88,398
Repayment of advance from fuel supplier	( 520,000 )	( 440,000 )
Counterpart funding paid	( 763,611 )	( 285,540 )
Principal paid on long-term debt	( 381,604 )	( 375,867 )
Interest paid on long-term debt	( 83,936 )	( 83,326 )
Net cash used in noncapital financing activities	( 1,233,311 )	( 599,839 )
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	1,101	17,011
Purchase of bucket truck on behalf of KAJUR	---	( 147,250 )
Acquisition and construction of capital assets	( 567,989 )	( 2,513,988 )
Net cash used in capital and related financing activities	( 566,888 )	( 2,644,227 )
Cash flows from investing activities:		
Net increase in time certificates of deposit	( 87,466 )	( 2,066,434 )
Net change in cash	1,994,030	( 5,317,251 )
Cash at beginning of year	3,844,096	9,161,347
Cash at end of year	\$ 5,838,126	\$ 3,844,096
Consisting of:		
Cash	\$ 5,457,193	\$ 3,668,498
Restricted cash	380,933	175,598
	\$ 5,838,126	\$ 3,844,096

See accompanying notes.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Statements of Cash Flows, continued

	Year ended September 30,	
	2023	2022
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$( 1,072,767 )	\$( 8,179,817 )
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,661,636	1,358,450
Provision for doubtful accounts	2,382,766	3,338,155
Change in assets and liabilities:		
Accounts receivable	( 2,156,742 )	( 2,698,723 )
Fuel and supplies	6,565,116	( 2,015,087 )
Deposits and other prepayments	26,120	( 600,841 )
Long-term replacement parts	426,830	992,370
Accounts payable - fuel	( 3,315,792 )	8,953,890
Accounts payable - other	( 162,027 )	( 237,342 )
Payable to affiliates	( 569,909 )	( 84,801 )
Accrued leave	( 48,691 )	91,183
Accrued taxes	2,607	1,058
Other accrued liabilities	---	( 79,678 )
Unearned income	241,719	( 789,982 )
Lease liability	( 99,171 )	( 55,586 )
Net cash provided by (used in) operating activities	<u>\$ 3,881,695</u>	<u>\$( 6,751 )</u>
Noncash noncapital financing activities:		
Government of Japan Fuel Grant in Aid:		
Fuel and supplies	\$( 2,010,909 )	\$( 2,500,366 )
Counterpart fund payable	1,034,557	1,135,858
Japan Grant aid	976,352	1,364,508
	<u>\$ ---</u>	<u>\$ ---</u>
Noncash capital and related financing activities:		
Construction of capital assets funded by Asian Development Bank Grant:		
Capital assets	\$( 5,826,393 )	\$( 2,606,067 )
Deposit on acquisition of capital assets	( 2,184,241 )	---
Capital contributions	8,010,634	2,606,067
	<u>\$ ---</u>	<u>\$ ---</u>
Construction of capital assets funded by World Bank Grant:		
Capital assets	\$( 2,201,873 )	\$( 4,706,281 )
Capital contributions	2,201,873	4,706,281
	<u>\$ ---</u>	<u>\$ ---</u>

See accompanying notes.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements

Years ended September 30, 2023 and 2022

## 1. Organization

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 operations of a landing craft, 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 as well as Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), the public utility company on the island of Ebeye.

MEC is governed by an eight-member RMI Combined Utilities Board of Directors appointed by the Cabinet of RepMar. The RMI Combined Utilities Board of Directors also have governance over KAJUR, which is a component unit of RepMar.

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. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

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*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34*, 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.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

To conform to these requirements, 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 - nonexpendable net position subject to externally imposed stipulations that requires MEC to maintain such permanently. As of September 30, 2023 and 2022, MEC does not have nonexpendable net position. Expendable net position whose use by MEC is subject to externally imposed stipulations that can be fulfilled by actions of MEC pursuant to those stipulations or that expire by the passage of time. As of September 30, 2023 and 2022, MEC has restricted expendable net position associated with the following:

	<u>2023</u>	<u>2022</u>
ADB Grant No. 0637-MH	\$ 315,759	\$ ---
ADB Subsidiary Loan Agreement	<u>65,174</u>	<u>175,598</u>
	<u>\$ 380,933</u>	<u>\$ 175,598</u>

- 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 deferred outflows of resources, and liabilities and deferred inflows of resources 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 are billed to customers on a daily basis based on the actual quantity of fuel and propane delivered.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**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.

For purposes of the statements of net position and cash flows, cash and cash equivalents are defined as cash on hand and cash held in demand and savings accounts as well as short-term investments with a maturity date within three months of the date acquired by MEC. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified in the statement of net position. As of September 30, 2023, and 2022, the carrying amount of cash and time certificates of deposit was \$11,051,240 and \$8,969,744, respectively, and the corresponding bank balances were \$11,191,865 and \$9,133,095, respectively. Of the bank balance amounts, \$3,623,247 and \$2,077,837, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$7,568,618 and \$7,055,258 as of September 30, 2023 and 2022, respectively, were maintained in a financial institution not subject to depository insurance.

As of September 30, 2023 and 2022, bank deposits in the amount of \$250,000 were FDIC insured. MEC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2023, and 2022, restricted cash deposits of \$380,933 and \$175,598, respectively, represents cash not available for general use externally restricted by requirements of the Asian Development Bank.

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

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Fuel and Supplies**

Fuel and supplies are valued at the lower of cost (moving average) or market (net realizable value).

**Prepayments**

Prepayments represent certain payments made to vendors or persons for services reflecting costs applicable to future accounting periods.

**Long-term Replacement Parts**

Long-term replacement parts are slow-moving inventory, not reasonably expected to be realized in cash during MEC's normal operating cycle and are valued at the lower of cost (moving average) 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. Costs pertaining to distribution and line supplies are expended during the year of installation as MEC considers the estimated useful lives of these supplies to be less than one year. The estimated useful lives of these assets are as follows:

	<u>Estimated Useful Lives</u>
Power plant engines	5 - 30 years
Tank farm	30 years
Distribution	30 years
Plant and machinery	2 - 20 years
Vehicles	3 - 5 years
Leasehold improvements	20 years
Residences	3 - 25 years
Fences and seawalls	8 - 20 years
Leasehold land	20 years
Solar power systems	15 - 20 years
Furniture and fixtures	1 - 5 years
Land and building	20 years
Computer software	3 - 5 years

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

## 2. Summary of Significant Accounting Policies, continued

### Leases

MEC is a party as lessee for various noncancellable long-term land leases. MEC determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, land, or equipment in exchange for consideration. Leases result in the recognition of right-to-use lease assets and lease liabilities on the statement of net position. Lease assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis.

### 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 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 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.

### Compensated Absences

MEC recognizes the cost of accrued annual leave at the time such leave is earned. As of September 30, 2023, and 2022, MEC recorded accrued annual leave of \$266,779 and \$315,470, respectively, which are included within the statements of net position as accrued leave. Unused annual or vacation leave hours in excess of the 208 hours annual limit will not be carried over into a succeeding payroll year. Annual or vacation time can be taken up to a maximum of twenty (20) days in a payroll year.

### Unearned Revenue

Unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned and primarily represents amounts received for cash power and fuel sales prior to the end of the fiscal year but are utilized or delivered in the subsequent accounting period.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

## 2. Summary of Significant Accounting Policies, continued

### Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross revenue tax (GRT) of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, sales of electricity by public utility companies are exempt from GRT. Accordingly, MEC is exempt from GRT on the sale of electric services. MEC is required to pay GRT on all other revenues. As of September 30, 2023, and 2022, MEC is liable for current and delinquent GRT of \$1,600,895 and \$1,746,943, respectively, which is included within the statements of net position as payable to affiliates. Pursuant to the Import Duties (MEC Exemption) Act of 2008, MEC is exempt from paying import duty on all types of fuel imported in the Republic of the Marshall Islands, including fuel imported for power generation and for commercial resale.

### Recently Adopted Accounting Pronouncements

During the year ended September 30, 2023, MEC implemented the following pronouncements:

- GASB Statement No. 91, *Conduit Debt Obligations*, which provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements, continued**

- GASB Statement No. 99, *Omnibus 2022*, which enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. This Statement provides clarification of provisions in:
  - 1) GASB Statement No. 87, *Leases*, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
  - 2) GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
  - 3) GASB Statement No. 96 related to the SBITA term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

This Statement modifies accounting and reporting guidance in:

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, related to termination of hedge.

The implementation of these Statements did not have a material effect on the accompanying financial statements.

**Upcoming Accounting Pronouncements**

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for the fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the fiscal year ending September 30, 2024.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for the fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for the fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to ascertain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact has occurred, has begun to occur, or is more likely than not to begin to occur within 12 months of the date the financial statements are issued. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 102 will be effective for the fiscal year ending September 30, 2025.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements - or modifies existing requirements - related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary comparison information; and f) financial trends information in the statistical section. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 103 will be effective for fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for the fiscal year ending September 30, 2026.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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. Accounts Receivable**

Accounts receivable as of September 30, 2023 and 2022, net of allowance for uncollectible accounts, consists of the following:

	<u>2023</u>	<u>2022</u>
RepMar and affiliates	\$16,037,559	\$14,102,776
Other:		
Electricity	4,775,895	4,989,751
Solar	2,037,710	1,846,366
Fuel	779,309	488,805
Other	<u>513,203</u>	<u>559,236</u>
	24,143,676	21,986,934
Less allowance for uncollectible accounts	<u>(19,267,250)</u>	<u>(16,884,484)</u>
	<u>\$ 4,876,426</u>	<u>\$ 5,102,450</u>

**4. Fuel and Supplies**

Fuel and supplies as of September 30, 2023 and 2022, consists of the following:

	<u>2023</u>	<u>2022</u>
Fuel	\$ 4,212,910	\$ 8,396,112
Distribution and power plant supplies	2,971,162	2,967,804
Lubricants	272,951	652,340
Propane gas	<u>45,712</u>	<u>40,686</u>
	<u>\$ 7,502,735</u>	<u>\$12,056,942</u>

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**5. Capital Assets**

Capital asset activities for the years ended September 30, 2023 and 2022, were as follows:

	2023			
	October 1, 2022	Additions	Transfers and Disposals	September 30, 2023
Nondepreciable capital assets:				
Construction work-in-progress	\$ <u>8,465,437</u>	\$ <u>8,002,725</u>	\$( <u>35,009</u> )	\$ <u>16,433,153</u>
Depreciable capital assets:				
Utility plant:				
Power plant engines	23,314,238	---	---	23,314,238
Tank farm	23,900,000	---	---	23,900,000
Solar power systems	8,564,830	---	---	8,564,830
Plant and machinery	3,408,867	---	---	3,408,867
Distribution	3,316,665	---	---	3,316,665
Ship	3,178,222	8,958	---	3,187,180
Buildings	1,864,041	---	---	1,864,041
Vehicles	1,360,622	302,150	(45,500)	1,617,272
Furniture and fixtures	1,305,872	257,525	---	1,563,397
Leasehold improvements	641,012	59,906	---	700,918
Residences	715,073	---	---	715,073
Fences and seawalls	371,702	---	---	371,702
Leasehold land	330,000	---	---	330,000
Computer software	<u>142,645</u>	<u>---</u>	<u>---</u>	<u>142,645</u>
	72,413,789	628,539	(45,500)	72,996,828
Less accumulated depreciation	( <u>59,338,454</u> )	( <u>1,551,210</u> )	<u>45,500</u>	( <u>60,844,164</u> )
	<u>13,075,335</u>	( <u>922,671</u> )	<u>---</u>	<u>12,152,664</u>
Non-utility plant:				
LPG terminal	209,969	---	---	209,969
Less accumulated depreciation	( <u>30,621</u> )	( <u>10,498</u> )	<u>---</u>	( <u>41,119</u> )
	<u>179,348</u>	( <u>10,498</u> )	<u>---</u>	<u>168,850</u>
	<u>\$21,720,120</u>	<u>\$7,069,556</u>	<u>\$(35,009)</u>	<u>\$28,754,667</u>

**Marshalls Energy Company, Inc.**  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**5. Capital Assets, continued**

	2022			
	October 1, 2021	Additions	Transfers and Disposals	September 30, 2022
Nondepreciable capital assets:				
Construction work-in-progress	\$ <u>672,129</u>	\$ <u>8,623,882</u>	\$( <u>830,574</u> )	\$ <u>8,465,437</u>
Depreciable capital assets:				
Utility plant:				
Power plant engines	23,314,238	---	---	23,314,238
Tank farm	23,900,000	---	---	23,900,000
Solar power systems	8,564,830	---	---	8,564,830
Plant and machinery	2,593,827	815,040	---	3,408,867
Distribution	3,316,665	---	---	3,316,665
Ship	---	3,178,222	---	3,178,222
Buildings	1,864,041	---	---	1,864,041
Vehicles	1,081,665	436,998	(158,041)	1,360,622
Furniture and fixtures	1,234,965	70,907	---	1,305,872
Leasehold improvements	641,012	---	---	641,012
Residences	561,073	154,000	---	715,073
Fences and seawalls	371,702	---	---	371,702
Leasehold land	330,000	---	---	330,000
Computer software	<u>66,437</u>	<u>76,208</u>	<u>---</u>	<u>142,645</u>
	67,840,455	4,731,375	(158,041)	72,413,789
Less accumulated depreciation	( <u>58,198,525</u> )	( <u>1,297,970</u> )	<u>158,041</u>	( <u>59,338,454</u> )
	<u>9,641,930</u>	<u>3,433,405</u>	<u>---</u>	<u>13,075,335</u>
Non-utility plant:				
LPG terminal	209,969	---	---	209,969
Less accumulated depreciation	( <u>20,122</u> )	( <u>10,499</u> )	<u>---</u>	( <u>30,621</u> )
	<u>189,847</u>	( <u>10,499</u> )	<u>---</u>	<u>179,348</u>
	<u>\$10,503,906</u>	<u>\$12,046,788</u>	\$( <u>830,574</u> )	<u>\$21,720,120</u>

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, 2023 and 2022, the R&M Fund has a balance of \$65,174 and \$175,598, respectively.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**6. Lease Asset**

Right-of-use asset activities for the year ended September 30, 2023, were as follows:

	2023			
	<u>October 1, 2022</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2023</u>
Right-of-use asset	\$762,437	\$ ---	\$ ---	\$762,437
Less accumulated amortization	( 49,981)	( 99,928)	---	(149,909)
	<u>\$712,456</u>	<u>\$ ( 99,928)</u>	<u>\$ ---</u>	<u>\$612,528</u>
	2022			
	<u>October 1, 2021</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2022</u>
Right-of-use asset	\$ ---	\$ 762,437	\$ ---	\$762,437
Less accumulated amortization	---	( 49,981)	---	( 49,981)
	<u>\$ ---</u>	<u>\$ 712,456</u>	<u>\$ ---</u>	<u>\$712,456</u>

**7. Leases**

MEC is a lessee under non-cancelable leases for apartments and certain parcels of land. The terms of the agreements range from 2 to 50 years generally at fixed monthly, quarterly or annual payments with no variable payments or escalation clauses. The calculated interest rate used was 1.5%.

The following is a summary of principal and interest requirements to maturity for the lease liabilities as of September 30, 2023:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 92,953	\$ 8,503	\$101,456
2025	77,357	7,249	84,606
2026	52,812	6,151	58,963
2027	10,185	5,729	15,914
2028	8,744	5,600	14,344
2029 - 2033	38,881	26,089	64,970
2034 - 2038	33,195	23,525	56,720
2039 - 2043	35,760	20,960	56,720
2044 - 2048	38,524	18,196	56,720
2049 - 2053	41,501	15,219	56,720
2054 - 2058	44,709	12,011	56,720
2059 - 2063	48,164	8,556	56,720
2064 - 2068	51,886	4,834	56,720
2069 - 2073	<u>33,009</u>	<u>995</u>	<u>34,004</u>
	<u>\$607,680</u>	<u>\$163,617</u>	<u>\$771,297</u>

Marshall's Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**8. Long-Term Debt**

Long-term debt as of September 30, 2023 and 2022 is as follows:

	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>2023</u>	<u>2022</u>
Asian Development Bank (ADB)	1.5%	2035	<u>\$4,722,561</u>	<u>\$5,104,165</u>

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 387,337	\$ 68,183	\$ 455,520
2025	393,187	62,333	455,520
2026	399,126	56,394	455,520
2027	405,154	50,366	455,520
2028	411,274	44,246	455,520
2029 - 2033	2,151,441	126,159	2,277,600
2034 - 2035	<u>575,042</u>	<u>5,852</u>	<u>580,894</u>
	<u>\$4,722,561</u>	<u>\$413,533</u>	<u>\$5,136,094</u>

**Change in Long-term Debt**

A summary of changes in long-term debt for the years ended September 30, 2023 and 2022, are as follows:

		<u>2023</u>				
		<u>Balance October 1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2023</u>	<u>Due Within One Year</u>
Loan payable:						
ADB		<u>\$5,104,165</u>	<u>\$ ---</u>	<u>\$(381,604)</u>	<u>\$4,722,561</u>	<u>\$387,337</u>
		<u>2022</u>				
		<u>Balance October 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2022</u>	<u>Due Within One Year</u>
Loan payable:						
ADB		<u>\$5,480,032</u>	<u>\$ ---</u>	<u>\$(375,867)</u>	<u>\$5,104,165</u>	<u>\$381,574</u>

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**8. Long-Term Debt, continued**

**Debt Covenants**

MEC obtained a subsidiary loan from the ADB, through RepMar. The ADB Subsidiary Loan Agreement, dated September 8, 2010, is utilized to pay off a bank loan that was originally procured for operating purposes. The Loan Agreement specifies that in case of default, RepMar, at its option, may by notice to MEC declare the principal of the subsidiary loan then outstanding to be due and payable immediately together with the interest and other charges.

**9. Change in Long-Term Liabilities**

Changes in other long-term liabilities during the years ended September 30, 2023 and 2022, are as follows:

	2023				
	October 1, 2022	Additions	Reductions	September 30, 2023	Due Within One Year
Accrued leave	\$ 315,470	\$ 270,689	\$( 319,380)	\$ 266,779	\$148,335
Advance from fuel supplier	1,560,000	---	( 520,000)	1,040,000	480,000
Counterpart fund payable	1,135,858	1,034,557	( 763,611)	1,406,804	---
Lease liability	<u>706,851</u>	<u>---</u>	<u>( 99,171)</u>	<u>607,680</u>	<u>92,953</u>
	<u>\$3,718,179</u>	<u>\$1,305,246</u>	<u>\$(1,702,162)</u>	<u>\$3,321,263</u>	<u>\$721,288</u>
	2022				
	October 1, 2021	Additions	Reductions	September 30, 2022	Due Within One Year
Accrued leave	\$ 224,287	\$ 304,546	\$( 213,363)	\$ 315,470	\$162,646
Advance from fuel supplier	2,000,000	---	( 440,000)	1,560,000	480,000
Counterpart fund payable	285,540	1,135,858	( 285,540)	1,135,858	---
Lease liability	<u>---</u>	<u>762,437</u>	<u>( 55,586)</u>	<u>706,851</u>	<u>99,170</u>
	<u>\$2,509,827</u>	<u>\$2,202,841</u>	<u>\$( 994,489)</u>	<u>\$3,718,179</u>	<u>\$741,816</u>

**10. Employee Retirement Plan**

MEC and KAJUR have implemented a defined contribution retirement savings plan (the Plan) for their respective 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 their respective employers up to 10% 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.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**10. Employee Retirement Plan, continued**

MEC contributed \$81,264 and \$75,549, respectively, to Plan participant accounts during the years ended September 30, 2023 and 2022, and total combined plan assets were \$1,810,673 and \$1,566,448 as of September 30, 2023 and 2022, respectively.

**11. Related Party Transactions**

MEC is wholly-owned by RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) and Majuro Water and Sewer Company, Inc. (MWSC). 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. A summary of related party transactions for the years ended September 30, 2023 and 2022, and the related receivable and payable balances as of September 30, 2023 and 2022, are as follows:

	2023			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 2,969,229	\$ 836,186	\$ 1,390,741	\$1,619,606
Kwajalein Atoll Joint Utilities Resources, Inc.	4,860,296	---	9,109,266	---
College of Marshall Islands	606,847	---	255,403	---
Marshall Islands National Telecommunications Authority	544,095	60,332	122,494	22,443
Majuro Water and Sewer Company, Inc.	453,391	9,928	4,227,838	---
Majuro Resort, Inc.	394,020	161,867	627,323	879
Marshall Islands Social Security Administration	52,548	538,587	4,160	199,759
Other	<u>1,704,625</u>	<u>128,065</u>	<u>300,334</u>	<u>55,700</u>
	<u>\$11,585,051</u>	<u>\$1,734,965</u>	<u>\$16,037,559</u>	<u>\$1,898,387</u>
	2022			
	Revenues	Expenses	Receivables	Payables
RepMar	\$ 3,121,359	\$1,063,086	\$ 1,476,584	\$2,200,739
Kwajalein Atoll Joint Utilities Resources, Inc.	3,205,896	---	7,850,868	---
College of Marshall Islands	539,775	---	158,096	---
Marshall Islands National Telecommunications Authority	520,422	77,926	106,648	22,443
Majuro Water and Sewer Company, Inc.	350,534	10,980	3,780,989	8,300
Majuro Resort, Inc.	204,941	144,399	315,155	---
Marshall Islands Social Security Administration	44,835	717,603	2,159	193,449
Other	<u>1,604,748</u>	<u>189,619</u>	<u>412,277</u>	<u>43,365</u>
	<u>\$ 9,592,510</u>	<u>\$2,203,613</u>	<u>\$14,102,776</u>	<u>\$2,468,296</u>

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**11. Related Party Transactions, continued**

As of September 30, 2023 and 2022, the allowance for uncollectible accounts of \$19,267,250 and \$16,884,484, respectively, includes \$9,109,266 and \$7,678,587, respectively, associated with KAJUR and \$4,227,838 and \$3,780,989, respectively, associated with MWSC.

During the years ended September 30, 2023 and 2022, MEC was the subrecipient of RepMar grant funding in the amounts of \$515,840 and \$496,496, respectively, from the 11th European Development Fund (EDF11) under the ACP-EU Partnership Agreement to support reform of the energy sector in RMI.

During the year ended September 30, 2022, MEC purchased a bucket truck for the benefit of KAJUR at a cost of \$147,250, which is recognized as a contribution to KAJUR in the accompanying 2022 financial statements.

In 2017, MEC entered into a project agreement with the ADB associated with a \$2,000,000 grant agreement (Grant Number 0554 RMI (SF)) between RepMar and the ADB for the Majuro Power Network Strengthening Project, the objective of which is to: (1) install advanced metering infrastructure on the Majuro distribution network and; (2) prepare and endorse MEC's business process reengineering and the management improvement action plans. For the year ended September 30, 2023, \$609,883 was made available to MEC under this grant agreement.

In 2018, MEC entered into a memorandum of understanding with RepMar associated with a \$34,000,000 financing agreement (Grant Number D261-MH) between RepMar and the World Bank for the Sustainable Energy Development Project, the objective of which is to increase the share of renewable energy generation on Majuro atoll and enhance the reliability of electricity supply and improve energy efficiency on Majuro atoll and Ebeye island. During the years ended September 30, 2023 and 2022, \$2,201,873 and \$4,706,281, respectively, were made available to MEC under this financing agreement whereby payments were either made directly by the World Bank to vendors or reimbursement to RepMar for capital-related costs associated with the supply and installation of a solar PV system, power station refurbishment, and battery energy storage system to be operated by MEC.

In 2018, MEC entered into a project agreement with the ADB associated with a \$12,700,000 grant agreement (Grant Number 0637 RMI (SF)) between RepMar and the ADB for the Energy Security Project, the objective of which is to achieve sustained, safe, and reliable operation of the Majuro tank farm and continued supply of fuel to power generation facilities throughout the Marshall Islands. On December 17, 2021, an additional grant was approved by the ADB (Grant Number 0817 RMI (SF)) in the amount of \$7,000,000. During the years ended September 30, 2023 and 2022, \$7,400,751 and \$2,606,067, respectively, were made available to MEC under this grant agreement whereby payments were made directly by the ADB to the vendor for capital-related costs associated with MEC's tank farm refurbishment.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**11. Related Party Transactions, continued**

In 2022, the Government of Japan and RepMar entered into a grant agreement for Grant Aid in the amount of JPY300,000,000, with MEC as the ultimate grantee, the objective of which is to assist in the supply of petroleum fuel to MEC and in mitigating the social and economic difficulties caused by volatile and sustained high oil prices. The Grant was paid directly by the Government of Japan through an independent procurement agent to MEC's fuel supplier. During the years ended September 30, 2023 and 2022, MEC received the equivalent gallons of fuel from the supplier in the amounts of \$2,010,909 and \$2,500,366, respectively. As part of this agreement, MEC was required to establish a counterpart fund with RepMar in the amount of \$1,406,804 no later than March 16, 2025 for FY2023, and \$1,135,858 no later than July 21, 2024 for FY2022. During the years ended September 30, 2023 and 2022, MEC recognized grant aid from the Government of Japan of \$976,352 and \$1,364,508, respectively, associated with this grant agreement.

As of September 30, 2023, MEC is liable for certain delinquent gross revenue taxes payable to RepMar. Accrued taxes payable exclude related penalties and interest.

**12. Commitments**

**Fuel Purchase Agreement**

In 2020, MEC entered into a diesel fuel supply agreement ("the supply agreement") with a new supplier for an initial period of five years with automatic renewal for an additional period of five years, unless one of the parties serves a notice of intention not to renew the contract at least 180 days prior to the expiry of the contract. Concurrently, MEC entered into an operations assistance program agreement ("the OAP agreement") with the supplier whereby the supplier provided a \$2,000,000 drawdown facility to MEC as working capital assistance. On September 8, 2021, the supplier advanced \$2,000,000 to MEC under this agreement, payable in monthly payments of \$40,000, commencing October 8, 2021, and maturing November 12, 2025. The amount of OAP repaid as of September 30, 2023 and 2022, were \$960,000 and \$440,000, respectively. As of September 30, 2023 and 2022, MEC has reported a liability of \$1,040,000 and \$1,560,000, respectively, in the accompanying statements of net position representing outstanding advance from fuel supplier.

**Grant Number 0554 RMI (SF) - Majuro Power Network Strengthening Project**

The ADB has made grant proceeds of \$2,000,000 available to MEC under Grant Number 0554 RMI (SF) for the purpose of exclusively financing Project expenditures in accordance with grant agreement provisions. As of September 30, 2023 and 2022, remaining commitments associated with unused grant proceeds amount to \$1,222,619 and \$1,832,502, respectively.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**12. Commitments, continued**

**Grant Numbers 0637 and 0817 RMI (SF) - Energy Security Project**

The ADB has made grant proceeds of \$19,700,000 available to MEC under Grant Number 0637 RMI (SF) and Grant Number 0817 RMI (SF) for the purpose of exclusively financing Project expenditures in accordance with respective grant agreement provisions. As of September 30, 2023 and 2022, remaining commitments associated with unused grant proceeds amount to \$12,360,679 and \$17,051,691, respectively.

**Grant Number D261-MH - Sustainable Energy Development Project**

The World Bank has made grant proceeds of \$34,000,000 available, in part, to MEC under Grant Number D261-MH for the purpose of exclusively financing Project expenditures in accordance with financing agreement provisions. As of September 30, 2023 and 2022, remaining commitments associated with unused grant proceeds amount to \$22,995,830 and \$23,334,335, respectively.

**13. Contingencies**

The accompanying financial statements have been prepared in accordance 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 and its affiliates to pay for actual services rendered and goods sold to maintain its operations. Management also acknowledges that operations are heavily dependent on fuel, and that global fuel prices are highly volatile. Should Repmar and its affiliates choose to delay or discontinue payments for actual services rendered and goods sold, and if fuel prices rise, 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.

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 not be material to the accompanying financial statements.

MEC is in the process of developing and implementing plans and systems to ensure effective waste oil management and environmental protection. MEC's management believes that no provision for any liability, if any, which may arise from this matter is required to be reflected in the accompanying financial statements.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

**13. Contingencies, continued**

MEC has a material amount of unpaid gross revenue and withholding payroll taxes payable to RepMar as of September 30, 2023 and 2022. The nonpayment of taxes is an effort to address increasing accounts receivable balances due from related parties via an offsetting exercise to reduce each party's liabilities. MEC's management believes that no provision for any additional liability, if any, which may arise from this matter is required to be reflected in the accompanying financial statements.

**14. 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.

**15. Subsequent Events**

On October 17, 2024, MEC entered into a project agreement with the World Bank associated with a \$60,000,000 financing agreement (Grant Number E331-MH) between RepMar and the World Bank for the Renewable Energy Generation and Access Increase Project, the objective of which is to increase renewable energy generation and enhance the reliability and quality of electricity service on Majuro atoll and the outer islands.

On December 11, 2024, MEC entered into a project agreement with ADB in connection with a \$19,700,000 grant agreement (Grant Numbers 1002-RMI (SF) and 1003-RMI (SF)) between RepMar and ADB for the Energy Transition Project, the objective of which is to enhance energy delivery in Majuro and provide support for long term energy transition through infrastructure development, policy support, and capacity building. The impact of the project is improved energy security for the Republic of Marshall Islands. The project outcome is reliable electricity distribution and clean energy deployment in the RMI.

On October 31, 2025, MEC secured a \$18,703,000 capital grant from RepMar under the Compact of Free Association Annual Economic Assistance Program to fund the purchase of three new generators.



Shape the future  
with confidence

Ernst & Young (RMI), Inc.  
P.O. Box 1288  
Majuro, Republic of the Marshall  
Islands 96960

Tel: 692 625 7387  
ey.com

## Report of Independent Auditors 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*

RMI Combined Utilities 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 business-type activities of Marshalls Energy Company, Inc. (MEC), which comprise the statement of net position as of September 30, 2023, 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 November 18, 2025.

### **Report on 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) as a basis for designing 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 identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2023-001 and 2023-002 that we consider to be material weaknesses.

## **Report on Compliance and Other Matters**

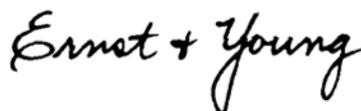
As part of obtaining reasonable assurance about whether MEC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2023-003.

### **MEC's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on MEC's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. MEC's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **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.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

November 18, 2025

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses

Year ended September 30, 2023

Finding No. 2023-001

Area: Collection of KAJUR and MWSC Receivables

Criteria: Effective internal controls over financial operations, including procedures to ensure the timely collection of receivables, are required to safeguard assets and ensure accurate financial reporting.

Condition: As of September 30, 2023, MEC recorded receivables of \$24,143,676 for which a corresponding allowance for uncollectible accounts of \$19,267,250 has been established. Receivables include delinquent amounts due from Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) and Majuro Water and Sewer Company, Inc. (MWSC) of \$9,109,266 and \$4,227,838, respectively, representing a combined receivable amount of \$13,337,104. The established allowance for uncollectible accounts includes a combined \$13,337,104 associated with the KAJUR and MWSC receivables.

Cause: MEC has not implemented a formal process for follow-up on delinquent receivables. Additionally, negotiations by management with RepMar officials to include budget allotments in the annual Appropriation Act to satisfy these delinquent accounts have been ineffective.

Effect: Increased risk of financial loss due to uncollectible accounts and potential overstatement of assets in financial statements resulting in negative impact on cash flows.

Identification as a Repeat Finding: Finding No. 2022-001

Recommendation: We recommend management establish a formal policy for receivable management, including timelines and procedures for follow-up on overdue accounts. Furthermore, we recommend management escalate collection efforts through continued negotiations with RepMar officials.

Auditee Response and Corrective Action Plan: MEC maintains and follows robust standard operating procedures for receivables management. However, KAJUR and MWSC represent exceptional cases that fall outside our standard collection process because they, like MEC, provide essential utility services to their communities. Disconnecting power to these entities would severely impact water and sewerage services to hospitals, schools, and households in Ebeye and Majuro. This puts MEC in a difficult position of balancing its financial responsibilities with broader public interest.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses, continued

Finding No. 2023-001, continued

Area: Collection of KAJUR and MWSC Receivables

Auditee Response and Corrective Action Plan, continued: Management has consistently and vigorously raised concerns about these significant outstanding debts with RepMar officials for over many years through various channels including a) Annual budget hearings with Nitijela; b) Meetings with the Ministry of Finance; and c) Briefings to the Cabinet.

Despite our continued efforts, these receivables continue to grow, placing an increasingly unsustainable burden on MEC's operations. We will continue to engage with RepMar officials to seek resolution, including pursuing budget allocation requests and exploring other potential government interventions to address this critical issue.

The situation requires urgent government attention as it threatens not only MEC's financial sustainability but also our mandate to provide reliable power services to the people of the Marshall Islands.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses, continued

Finding No. 2023-002

Area: Capital Asset Contributions

Criteria: Under Generally Accepted Accounting Principles (GAAP), including those established by the Governmental Accounting Standards Board (GASB), entities are required to recognize contributed capital assets and related capital contributions at their estimated fair value at the time of construction. Furthermore, effective internal controls should ensure the timely and accurate recording of all capital asset transactions.

Condition: MEC does not have a process in place to identify, track, and record contributed capital assets and related capital contributions. As a result, several contributed capital assets under construction funded by the Asian Development Bank's Energy Security Project and the World Bank's Sustainable Energy Development Project with a cost of \$8,010,634 and \$2,201,873, respectively, were partially omitted from the financial statements. Audit adjustments in the aggregate amount of \$2,709,740 and \$1,908,755, respectively, were proposed to correct this omission.

Cause: Lack of a formalized system for identifying and recording capital asset contributions.

Effect: Financial statements are misstated, as capital assets and related capital contributions are not reported at their appropriate value; noncompliance with GAAP and potential audit opinion modifications; and failure to account for capital asset contributions may lead to an incomplete understanding of MEC's financial position.

Identification as a Repeat Finding: Finding No. 2022-002

Recommendation: We recommend management establish policies and procedures to ensure all contributed capital assets and related capital contributions are identified, valued, and recorded in the financial system. Furthermore, we recommend management implement periodic training for staff on the importance of identifying and recording contributed capital assets to ensure compliance with accounting standards.

Auditee Response and Corrective Action Plan: MEC agrees with this finding and will establish policies and procedures to ensure that capital contributed assets and related capital contributions are recorded and that staff are trained to ensure compliance with the applicable accounting standards.

Marshalls Energy Company, Inc.  
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses, continued

Finding No. 2023-003

Area: Local Noncompliance

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 110, states that every business shall on or before the last day of the following the close of each quarter, pay the amount of tax imposed on gross revenues under Section 109 of the Chapter.

Condition: MEC filed and paid gross revenue taxes for the year ended September 30, 2023, in a manner inconsistent with the criteria, which included gross revenue taxes from previous years in the amount of \$1,361,258 representing quarters ended June 2014 through June 2017 that have not been paid.

Cause: Lack of policies and procedures to monitor timely payment of gross revenue taxes.

Effect: Noncompliance with RepMar Income Tax Act of 1989, as amended.

Identification as a Repeat Finding: Finding No. 2022-003

Recommendation: We recommend management establish policies and procedures to comply with the RepMar Income Tax Act of 1989, as amended.

Auditee Response and Corrective Action Plan: MEC understands this noncompliance. However, it's important to note that MEC has paid an amount of \$1,500,179 in Gross Revenue Tax (GRT) for diesel fuel supplied to KAJUR's power plants. These fuel transactions should have been tax-exempt as they represent inter-governmental transfers between state-owned enterprises.

Both Nitijela Committees and the Ministry of Finance have acknowledged that RepMar should not have collected taxes on these fuel transactions. MEC has been actively working with the Ministry of Finance Taxation Office to implement an offset arrangement. This approach is not unprecedented - a similar exercise previously resulted in a successful \$2.3 million offset of outstanding obligations and accounts receivable between RepMar and several SOEs.

MEC will continue to collaborate with RepMar officials to continue with the payment deduction arrangement currently in place. In FY2023, REP MAR started deducting from electric bill payments towards this outstanding unpaid GRT, the total amount deducted by the end of FY23 amounted to \$309, 576.