

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Years Ended September 30, 2019 and 2018
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KAJUR as of September 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Going Concern

The accompanying financial statements have been prepared assuming that KAJUR will continue as a going concern. As discussed in Note 9 to the financial statements, KAJUR's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 9 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

COVID-19

As discussed in Note 10 to the financial statements, KAJUR determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. KAJUR is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

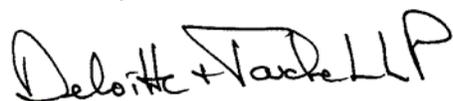
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries of the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2020, on our consideration of KAJUR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 KAJUR'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 KAJUR's internal control over financial reporting and compliance.



September 11, 2020

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Overview

The Kwajalein Atoll Joint Utilities Resources (KAJUR) was incorporated under the laws of the Republic of the Marshall Islands in September 1990. KAJUR was originally established as a private entity governed by the Kwajalein Atoll Development Authority (KADA) Board of Directors. In October 1999, RepMar and KADA awarded a two year management contract to the American Samoa Power Authority (ASPA) to assume operational control of KAJUR. This management contract was extended for an additional two years and in April of 2003, ASPA's contract expired.

In May of 2006, the RMI Cabinet officially approved the transfer of all management responsibilities for KAJUR to the RMI Combined Utility Board of Directors as a component unit of RepMar. KAJUR is currently the sole provider of Electricity, Potable Water and Sanitation Services for the community of Ebeye, which also include Gugeegue and smaller island communities connected to Ebeye by the causeway. At the closing of FY2019, KAJUR has under its employment a total of seventy seven (77) employees working in all three functional elements of its operational structure.

In September of 2015, a \$19.02 million project was awarded to RMI and KAJUR under a multi-country grant scheme provided by the US government, the Australian government, and the Asian Development Bank. Under this grant, the Ebeye Water Supply and Sanitation Project (EWSSP) continues to make notable improvements in the quality of services KAJUR provides to the community of Ebeye. Two years later, in 2017, a new reverse osmosis (RO) plant was commissioned which essentially increased the production and frequency of water distribution by two-fold and brought the community much closer to their ultimate desire for 24/7 fresh water service to the whole island. Other improvements to KAJUR's existing infrastructure now visible on the ground include: extension of utility services (water and sanitation) to North Camp, installation of toiletry to every house units in the North Camp community (home fixture program), refurbishment of saltwater pump stations, upgrade to freshwater and saltwater networks throughout Ebeye, and major improvement to the island's sewage outfall. All these continuing project activities are infusing funds into KAJUR's capital infrastructure as reflected in notable improvements to KAJUR's capital assets.

FINANCIAL HIGHLIGHTS

KAJUR continues to struggle in its ability to recover cost for the services it provides to the population of 11,000 people in Ebeye. However, as financial and technical experts under the EWSSP project are now engaged with their local counterparts within KAJUR, there is renewed hope that the engagement of younger members of KAJUR's workforce will also build KAJUR's internal capacity and accountability in the operation and maintenance of these advance systems being built under EWSSP.

As in other Pacific utility operations, local capacity building continues to be a top priority area for KAJUR. As such, a select group of KAJUR's EWSSP local counterparts continued direct engagements with off-island experts in financial management, project management, RO plant operation and maintenance, and leak detection capability among others. Unfortunately, Ebeye's limited skilled labor-pool and KAJUR's weak financial position places the organization at a great disadvantage when it comes to competing for younger and higher skilled employees with other competing organizations such as the military installation on Kwajalein.

Leading into Fiscal Year 2019, KAJUR is now positioning itself for three major plans that have taken shape and will hopefully make some positive improvements to KAJUR's financial footprint. These changes include the decision to install prepaid electrical meters in all government buildings; decision to install prepaid water meters for all water consumers in Ebeye; and for MEC to provide technical assistance in managing KAJUR's financial and supply systems. In addition, KAJUR has identified and will soon hire an off-island technical manager with experience in power generation operation and maintenance as well as RO plant operations and maintenance.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis, Continued
Years Ended September 30, 2019 and 2018

KAJUR recognizes the adverse impact other government organizations have on KAJUR when these government agencies fail to budget adequately for their utility needs. Without the installation of prepaid metering on government facilities, KAJUR will continue to have little to no control over unpaid government utility bills. This same principle applies to water being provided to government facilities. Consequently, government organizations have been given notice that starting FY2019, all government facilities will be retrofitted with prepaid electric metering systems. Prepaid water metering systems will follow as soon as the new fresh water and saltwater distribution systems are in place.

KAJUR also recognizes the small "baby steps" it can take immediately to improve its accounting and supply system. As noted from KAJUR's 2019 financial audit exercises, some improvement in KAJUR inventory practices will eliminate most deficiencies noted in this recent financial audit. As such, with assistance from MEC, KAJUR has taken the initial steps toward adopting the same steps MEC took earlier to improve its own supply and inventory systems. Over the course of a six month period, a small group of MEC Finance and Supply staff will make several short trips to Ebeye to help KAJUR set up its supply and inventory systems. Some internal accounting processes within KAJUR have already been modified as part of these overall improvements.

FINANCIAL ANALYSIS OF KAJUR

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of KAJUR's financial condition. KAJUR's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

A comparative summary of KAJUR's Statement of Net Position is presented below:

Summary Statements of Net Position As of September 30

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Assets:					
Current and other assets	\$ 889,292	\$ 1,492,033	\$ (602,741)	(40.4)%	\$ 1,613,716
Capital assets	<u>10,757,421</u>	<u>7,720,760</u>	<u>3,036,661</u>	39.3%	<u>5,434,009</u>
Total assets	<u>11,646,713</u>	<u>9,212,793</u>	<u>2,433,920</u>	26.4%	<u>7,047,725</u>
Liabilities:					
Current and other liabilities	<u>6,057,133</u>	<u>5,539,296</u>	<u>517,837</u>	9.3%	<u>3,791,509</u>
Net position:					
Net investment in capital assets	10,757,421	7,720,760	3,036,661	39.3%	5,434,009
Restricted	187,166	22,478	164,688	732.7%	22,478
Unrestricted	<u>(5,355,007)</u>	<u>(4,069,741)</u>	<u>(1,285,266)</u>	31.6%	<u>(2,200,271)</u>
Total net position	<u>\$ 5,589,580</u>	<u>\$ 3,673,497</u>	<u>\$ 1,916,083</u>	52.2%	<u>\$ 3,256,216</u>

KAJUR's current and other assets decreased by \$602,741 in FY2019. Furthermore, KAJUR's capital assets increased substantially by \$3,036,661. This increase is attributed to the continuing infusion of funds for infrastructure from the Ebeye Water Supply and Sanitation Project (EWSSP).

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis, Continued
Years Ended September 30, 2019 and 2018

KAJUR is current and up-to-date in its reporting requirement for all RMI taxes including RMI Social Security. KAJUR continues to owe a significant amount in liabilities for purchases of diesel fuel for KAJUR operations to Marshalls Energy Company (MEC). KAJUR's fuel liability to MEC increased by \$533k to \$5.4 million in FY2019 compared to an increase of \$1.3 million in FY2018. It is anticipated that approximately two million in allocated subsidy in 2020 from US Compact funds for KAJUR will all be used to bring down this amount. KAJUR looks to more aggressive means of collecting its account receivables along with other means of generating more revenue as short term alternatives to improving KAJUR's cash position to address this situation.

For the foreseeable future, KAJUR, as a State Owned Enterprise (SOE), will continue to rely heavily on the RMI government for funding support to subsidize services to the community in Ebeye and other nearby island communities in order to maintain tariffs at a level that are affordable to these communities.

A comparative summary of KAJUR'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

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Operating:					
Operating revenues	\$ 3,947,365	\$ 4,146,468	\$ (199,103)	(4.8)%	\$ 4,366,109
Operating expenses	<u>7,405,480</u>	<u>7,718,537</u>	<u>(313,057)</u>	(4.1)%	<u>6,697,820</u>
Operating loss	<u>(3,458,115)</u>	<u>(3,572,069)</u>	<u>113,954</u>	(3.2)%	<u>(2,331,711)</u>
Nonoperating:					
Nonoperating revenues	1,789,860	1,327,860	462,000	34.8%	1,327,860
Nonoperating expenses	<u>347,436</u>	<u>131,254</u>	<u>216,182</u>	164.7%	<u>97,435</u>
	<u>(2,015,691)</u>	<u>(2,375,463)</u>	<u>359,772</u>	(15.1)%	<u>(1,101,286)</u>
Capital contributions	<u>3,931,774</u>	<u>2,792,744</u>	<u>1,139,030</u>	40.8%	<u>3,213,670</u>
Change in net position	<u>\$ 1,916,083</u>	<u>\$ 417,281</u>	<u>\$ 1,498,802</u>	359.2%	<u>\$ 2,112,384</u>

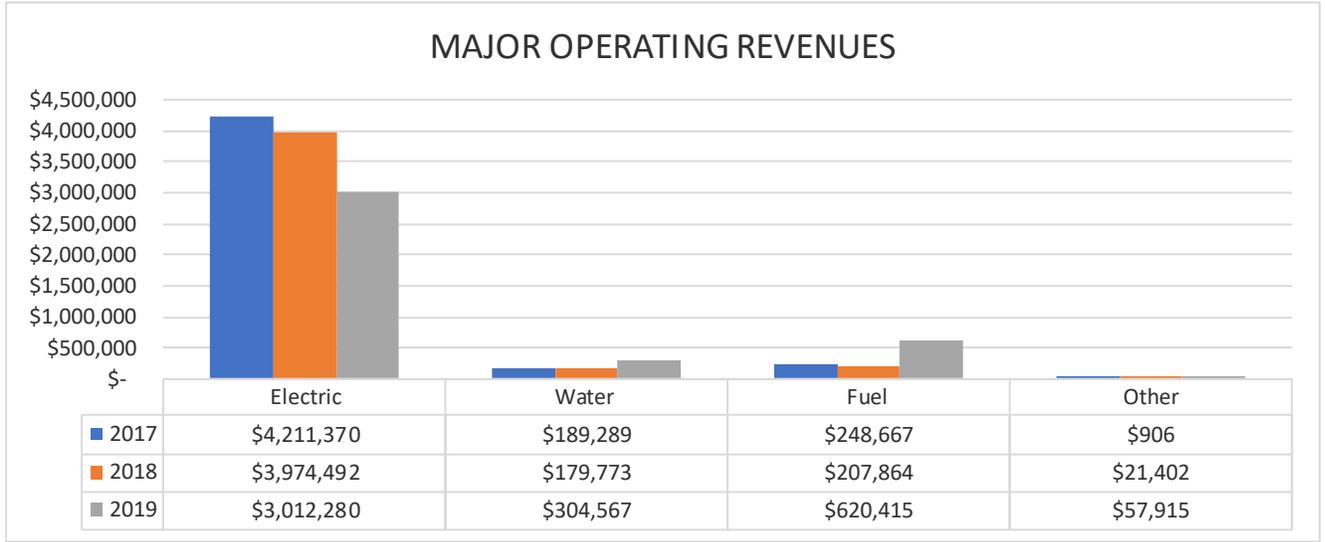
The Statement of Revenues, Expenses and Changes in Net Position identifies the various revenue and expense items that impacted the change in net position. As indicated above, KAJUR's total revenues (operating, nonoperating and capital contributions) increased by \$1.4 million (or 20%) from \$8,267,072 in FY2018 to \$9,668,999 in FY2019. The increase in revenue is mainly attributed to the increase in capital contributions for the EWSSP project. It is important to note that Ebeye's main source of water comes from its Saltwater Water Reverse Osmosis (SWRO) Plant.

Management's Discussion and Analysis for the year ended September 30, 2018 is set for in the report on the audit of KAJUR's financial statements dated June 6, 2019. That Discussion and Analysis explains the major factors impacting the FY2018 financial statements and may be obtained from the contact information below.

The graph below shows a comparative analysis of revenue trends from major components of KAJUR's operating revenues for 2019, 2018 and 2017.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

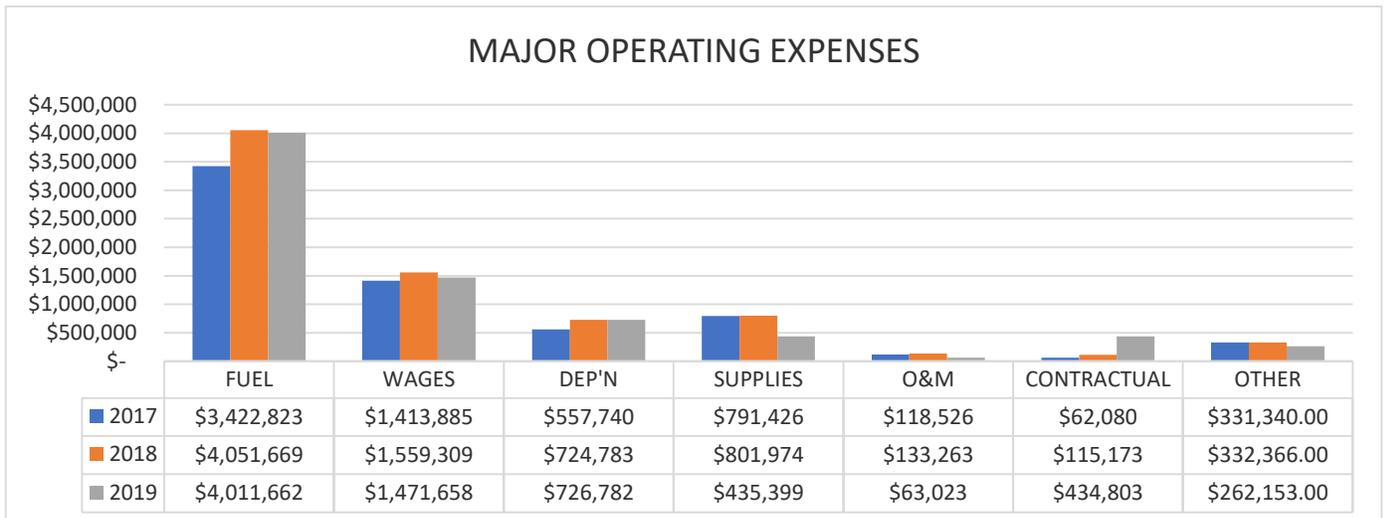
Management's Discussion and Analysis, Continued
Years Ended September 30, 2019 and 2018



As expected, fuel and lube continued to be the leading expense items among KAJUR's operational expenses representing 54% and 52% for years FY2019 and FY2018, respectively. The decrease in operating expenses from \$7,718,537 in FY2018 to \$7,405,480 in FY2019 (\$313,057 decrease) is attributed to the decrease in some of the major expenses and is also a result of a set of initiatives designed to decrease expenses across the board.

It is also important to note that in order to help minimize the adverse impact that the power situation had on the community of Ebeye, fuel of \$113,725 was provided at no charge to major businesses who own private generators to continuously run their generators during the whole period that the island was running on one and one-half power generation units. The major components of KAJUR's operational expenses are highlighted in the graph below.

See graph below for a comparative analysis of major components of KAJUR's operating expenses for 2019, 2018 and 2017.



KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis, Continued
Years Ended September 30, 2019 and 2018

CAPITAL ASSETS

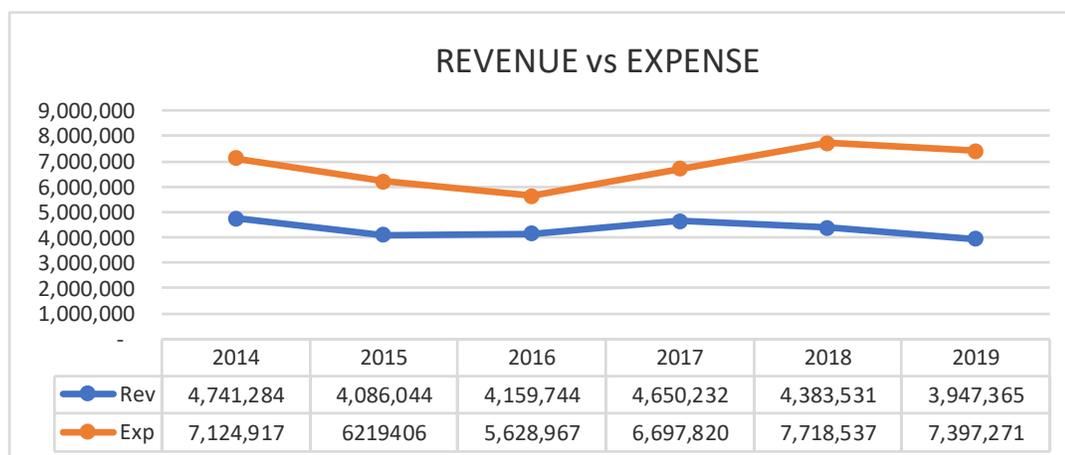
Over the past three years, KAJUR acquired major investments in capital assets from the EWSSP. A summary of KAJUR's capital assets for the past three years is presented below:

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Nondepreciable assets:					
Construction in progress	\$ 3,355,640	\$ 2,852,110	\$ 503,530	17.7%	\$ 3,438,029
Depreciable assets:					
Plant and machinery	\$ 3,745,133	\$ 5,424,285	\$ (1,679,152)	(31.0)%	\$ 5,405,697
Distribution system	2,184,814	2,167,074	17,740	0.8%	2,134,149
Water system	8,513,958	5,291,945	3,222,013	60.9%	1,965,890
Other equipment	2,391,899	2,415,876	(23,977)	(1.0)%	2,324,248
	16,835,804	15,299,180	1,536,624	10.0%	11,829,984
Accumulated depreciation	(9,434,022)	(10,430,830)	996,808	(9.6)%	(9,834,004)
Net depreciable assets	7,401,782	4,868,350	2,533,432	52.0%	1,995,980
Capital assets, net	\$ 10,757,422	\$ 7,720,460	\$ 3,036,962	39.3%	\$ 5,434,009

Please refer to note 4 to the accompanying financial statements for additional information regarding KAJUR's capital assets.

FUTURE OUTLOOK ON SUSTAINABILITY

KAJUR's future outlook on sustainability remains bleak. To sustain its services, KAJUR continues to depend heavily on the US and RMI governments to help cover that are three million dull of gap that is needed yearly to maintain essential utility services to Ebeye and Gugegue. As discussed in the earlier part of this report, electric sales remain the top source of revenue generation for KAJUR. However, as depicted in the chart below, it is obviously becoming more costly for KAJUR to generate electricity as the aging generators get closer to retirement. Three major projects - the EWSSP (\$19M), which is currently being implemented; the Ebeye Solar Project (\$10M), which has been awarded (ground breaking ceremony has taken place and construction work to start once travel restrictions are lifted); and the installation phase of the 4 new Cummins genset funded by the World Bank. These projects will provide greater likelihood of a more sustainable future for KAJUR.



KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis, Continued
Years Ended September 30, 2019 and 2018

KAJUR'S FOCUS IN THE COMING FISCAL YEAR

The following are KAJUR's focus for the coming year:

1. Hire an Accountant Manager for KAJUR to help with internal control policies, to better the financial recoding procedures, to standardize the procedures and to build and increase capacities with local accountants to operate and maintain sound financial recordings.
2. Update KAJUR's strategic plan and formulate a clear direction that will lead KAJUR toward self-dependency and sustainability.
3. Further strengthen KAJUR's capacity within its supply and inventory system through technical support from MEC.
4. Further strengthen KAJUR's data collection capabilities.
5. Reshuffle employees within KAJUR to beef-up areas that are in greater need of support without incurring substantial overhead cost and encourage cross-utilization of employees where appropriate.
6. Active look for other means for KAJUR to generate more revenues and lower amount owed to MEC.
7. Work with MEC and Board to finalize water tariff for Ebeye.

COVID-19

The Marshall Islands continues to be COVID-19 free. However, travel restrictions caused by the pandemic has delayed the arrival of the new generators, World Bank aid and consultants that have prolonged KAJUR's use of the Aggreko rental engines, which in turn has affected cash flow. Furthermore, the travel ban has also delayed the arrival of consultants for the completion of the EWSSP project. On the positive side, KAJUR is currently not experiencing a decline in collections from customers since it is business as usual in Ebeye.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide KAJUR's customers and other interested parties with an overview of KAJUR's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Kwajalein Atoll Joint Utility Resources, Inc manager at PO Box 5819, Ebeye MH 96970.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Net Position
September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 130,708	\$ 299,210
Receivables:		
Utility	2,289,509	2,392,030
Affiliates	998,715	1,159,329
Due from related party	159,430	154,358
Due from grantor	47,679	47,552
Employees	7,667	9,001
Other	<u>304,339</u>	<u>275,681</u>
	3,807,339	4,037,951
Less allowance for doubtful accounts	<u>(3,607,948)</u>	<u>(3,560,137)</u>
Total receivables, net	<u>199,391</u>	<u>477,814</u>
Prepaid expenses	<u>15,903</u>	<u>61,531</u>
Inventories	<u>543,290</u>	<u>653,478</u>
Total current assets	889,292	1,492,033
Capital assets:		
Nondepreciable	3,355,639	2,852,110
Other capital assets, net of accumulated depreciation	<u>7,401,782</u>	<u>4,868,650</u>
	<u>\$ 11,646,713</u>	<u>\$ 9,212,793</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 256,433	\$ 384,863
Due to affiliates	5,561,216	5,032,966
Accrued liabilities	35,390	46,591
Unearned revenue	<u>204,094</u>	<u>74,876</u>
Total current liabilities	<u>6,057,133</u>	<u>5,539,296</u>
Contingencies		
Net position:		
Net investment in capital assets	10,757,421	7,720,760
Restricted	187,166	22,478
Unrestricted	<u>(5,355,007)</u>	<u>(4,069,741)</u>
Total net position	<u>5,589,580</u>	<u>3,673,497</u>
	<u>\$ 11,646,713</u>	<u>\$ 9,212,793</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Electric and service billings	\$ 3,012,280	\$ 3,974,492
Fuel sales	620,415	207,864
Water	304,567	179,773
Other	<u>57,915</u>	<u>21,402</u>
Total operating revenues	3,995,177	4,383,531
Less provision for doubtful accounts	<u>(47,811)</u>	<u>(237,063)</u>
Total net operating revenues	<u>3,947,366</u>	<u>4,146,468</u>
Operating expenses:		
Fuel and lubricants	4,011,662	4,051,669
Salaries, wages and benefits	1,471,658	1,559,309
Depreciation	726,782	724,783
Supplies and materials	435,399	801,974
Genset rental	335,689	-
Travel and transportation	120,303	141,608
Contractual services	99,114	115,173
Operations and maintenance	63,023	133,263
Rental	26,268	26,268
Communications	22,449	64,837
Insurance	19,870	22,800
Board activities	13,940	20,068
Entertainment	5,830	18,811
Bank charges	5,333	3,991
Membership fees	3,264	3,983
Miscellaneous	<u>44,897</u>	<u>30,000</u>
Total operating expenses	<u>7,405,481</u>	<u>7,718,537</u>
Operating loss	<u>(3,458,115)</u>	<u>(3,572,069)</u>
Nonoperating revenues (expenses):		
Compact funding	1,789,860	1,327,860
Loss on write-off of capital assets	<u>(347,436)</u>	<u>(131,254)</u>
Total nonoperating revenues (expenses), net	<u>1,442,424</u>	<u>1,196,606</u>
Loss before capital contributions	(2,015,691)	(2,375,463)
Capital contributions	<u>3,931,774</u>	<u>2,792,744</u>
Change in net position	1,916,083	417,281
Net position at beginning of year	<u>3,673,497</u>	<u>3,256,216</u>
Net position at end of year	<u>\$ 5,589,580</u>	<u>\$ 3,673,497</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,353,673	\$ 4,175,164
Cash payments to suppliers for goods and services	(4,651,405)	(3,737,494)
Cash payments to employees for services	<u>(1,481,525)</u>	<u>(1,544,574)</u>
Net cash used for operating activities	<u>(1,779,257)</u>	<u>(1,106,904)</u>
Cash flows from noncapital financing activities:		
Operating subsidies received from RepMar	<u>1,789,860</u>	<u>1,327,860</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	<u>(179,105)</u>	<u>(320,023)</u>
Net change in cash	(168,502)	(99,067)
Cash at beginning of year	<u>299,210</u>	<u>398,277</u>
Cash at end of year	<u>\$ 130,708</u>	<u>\$ 299,210</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (3,458,115)	\$ (3,572,069)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	726,782	724,783
Provision for doubtful accounts	47,811	237,063
(Increase) decrease in assets:		
Receivables:		
Utility	102,521	(211,462)
Affiliate	160,614	(21,584)
Employees	1,334	(1,217)
Other	(33,857)	16,962
Prepaid expenses	45,628	87,899
Inventories	110,188	(115,066)
Increase (decrease) in liabilities:		
Accounts payable	(128,430)	309,837
Due to affiliates	528,250	1,413,965
Unearned revenue	129,218	7,717
Other current and accrued liabilities	<u>(11,201)</u>	<u>16,268</u>
Net cash used for operating activities	<u>\$ (1,779,257)</u>	<u>\$ (1,106,904)</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Cash Flows, Continued
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Noncash capital and related financing activities:		
Ebeye Water Supply and Sanitation Project contributions:		
Capital assets	\$ 3,931,774	\$ 2,792,744
Capital contributions	<u>(3,931,774)</u>	<u>(2,792,744)</u>
	<u>\$ -</u>	<u>\$ -</u>
Write-off of capital assets:		
Capital assets	\$ (2,071,026)	\$ (259,211)
Accumulated depreciation	1,723,590	127,957
Loss on write-off of capital assets	<u>347,436</u>	<u>131,254</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2019 and 2018

(1) Organization

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

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

KAJUR is governed by a seven-member RMI Combined Utilities Board of Directors appointed by the Cabinet of RepMar. The RMI Combined Utilities Board of Directors also have governance over Marshalls Energy Company, Inc. (MEC) and Majuro Water and Sewer Company, Inc. (MWSC), which are component units of RepMar.

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

(2) Summary of Significant Accounting Policies

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

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.

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 require KAJUR to maintain such permanently. As of September 30, 2019 and 2018, KAJUR does not have nonexpendable restricted net position.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

- Restricted: Expendable net position whose use by KAJUR is subject to externally imposed stipulations that can be fulfilled by actions of MWSC pursuant to those stipulations or that expire with the passage of time. As of September 30, 2019 and 2018, KAJUR has expendable restricted net position as follows:

	<u>2019</u>	<u>2018</u>
Republic of the Marshall Islands:		
Compact of Free Association Kwajalein Impact Fund:		
KAJUR Power Generation	\$ 164,688	\$ -
International Union for Conservation of Nature and Natural Resources:		
Power Plants Fuel and Waste Oil Management System Upgrade Phase 1	<u>22,478</u>	<u>22,478</u>
	<u>\$ 187,166</u>	<u>\$ 22,478</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 KAJUR'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

KAJUR's revenues are derived primarily from the operation of the utility generation and distribution system on Ebeye. Capital grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. Specifically, sales of electricity and water 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. All expenses related to operating KAJUR are reported as operating expenses.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Cash

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

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash in checking accounts. As of September 30, 2019 and 2018, the carrying amount of cash was \$130,708 and \$299,210, respectively, and the corresponding bank balances were \$228,397 and \$321,235, respectively. Of the bank balances, \$40,579 and \$48,255, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits of \$187,818 and \$272,980, respectively, are maintained in financial institutions not subject to depository insurance. As of September 30, 2019 and 2018, bank deposits in the amount of \$40,579 and \$48,255, respectively, were subject to FDIC insurance. KAJUR 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.

Receivables

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

Inventories

Inventories of fuel and supplies are stated at the lower of cost (first-in, first-out) or market (net realizable value) at September 30, 2019 and 2018. Bulk fuel inventories are held for power plant use.

Prepaid Expenses

Certain payments made to vendors or persons for goods and services reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Plant and Equipment

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

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

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Deferred Outflows of Resources

In addition to assets, the statement 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. KAJUR has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement 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. KAJUR has no items that qualify for reporting in this category.

Unearned Revenue

Unearned revenue is recorded when cash is received prior to being earned and relates to cash received in advance for utility billings.

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 receipts tax of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, sales of water and sewer services by public utility companies are exempt from gross revenue tax. Accordingly, KAJUR is specifically exempt from this tax.

New Accounting Standards

During the year ended September 30, 2019, KAJUR implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

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

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies 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. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

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.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2019 and 2018

(3) Inventories

Inventories at September 30, 2019 and 2018, consist of the following:

	<u>2019</u>	<u>2018</u>
Materials and supplies	\$ 300,152	\$ 347,749
Fuel	240,881	305,729
Lubricants	<u>2,257</u>	<u>-</u>
	\$ <u>543,290</u>	\$ <u>653,478</u>

(4) Capital Assets

Capital asset activity for the years ended September 30, 2019 and 2018 are as follows:

	<u>2019</u>			
	<u>October 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2019</u>
Plant and machinery	\$ 5,424,285	\$ 36,490	\$ (1,715,642)	\$ 3,745,133
Distribution system	2,167,074	36,377	(18,637)	2,184,814
Water system	5,292,245	3,289,378	(67,665)	8,513,958
Other equipment	<u>2,415,876</u>	<u>188,331</u>	<u>(212,308)</u>	<u>2,391,899</u>
	15,299,480	3,550,576	(2,014,252)	16,835,804
Less accumulated depreciation	<u>(10,430,830)</u>	<u>(726,782)</u>	<u>1,723,590</u>	<u>(9,434,022)</u>
	4,868,350	2,823,794	(290,662)	7,401,782
Construction in progress	<u>2,852,110</u>	<u>3,931,774</u>	<u>(3,428,245)</u>	<u>3,355,639</u>
	\$ <u>7,720,760</u>	\$ <u>6,755,568</u>	\$ <u>(3,718,907)</u>	\$ <u>10,757,421</u>
	<u>2018</u>			
	<u>October 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2018</u>
Plant and machinery	\$ 5,405,697	\$ 188,715	\$ (170,127)	\$ 5,424,285
Distribution system	2,134,149	32,925	-	2,167,074
Water system	1,965,890	3,415,439	(89,084)	5,292,245
Other equipment	<u>2,324,248</u>	<u>91,628</u>	<u>-</u>	<u>2,415,876</u>
	11,829,984	3,728,707	(259,211)	15,299,480
Less accumulated depreciation	<u>(9,834,004)</u>	<u>(724,783)</u>	<u>127,957</u>	<u>(10,430,830)</u>
	1,995,980	3,003,924	(131,254)	4,868,350
Construction in progress	<u>3,438,029</u>	<u>2,792,744</u>	<u>(3,378,663)</u>	<u>2,852,110</u>
	\$ <u>5,434,009</u>	\$ <u>5,796,668</u>	\$ <u>(3,509,917)</u>	\$ <u>7,720,760</u>

During the years ended September 30, 2019 and 2018, management of KAJUR determined that certain capital assets in the amount of \$2,071,026 and \$259,211, respectively, no longer existed. Accordingly, these capital assets were written off resulting in a loss of \$347,436 and \$131,254, respectively.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2019 and 2018

(4) Capital Assets, Continued

During the years ended September 30, 2019 and 2018, KAJUR was the recipient of capital contributions of \$3,931,774 and \$2,792,744, respectively, associated with the Ebeye Water Supply and Sanitation Project. These contributions related to the following project components:

	<u>2019</u>	<u>2018</u>
Salt Water Reverse Osmosis (SWRO) Plant	\$ -	\$ 164,993
Water and Sewer System Rehabilitation (WSSR)	<u>3,931,774</u>	<u>2,627,751</u>
	\$ <u>3,931,774</u>	\$ <u>2,792,744</u>

On September 30, 2019, a portion of the WSSR with a total cost of \$3,203,886 was commissioned and placed into service. On October 7, 2017, the SWRO Plant with a total cost of \$3,378,663 was commissioned and placed into service.

(5) Capital Contributions

In 2015, the Asian Development Bank (ADB) approved two grants (Grant Nos. 0438-RMI and 0439-RMI) to RepMar in the aggregate amount of \$9,000,000 for the Ebeye Water Supply and Sanitation Project. Simultaneously, the ADB entered into a project agreement with KAJUR for the purpose of implementing the Project by improving water and sanitation systems on Ebeye. The grant agreements required that the grant proceeds be made available to KAJUR for the purpose of financing expenditures of the Project. During the years ended September 30, 2019 and 2018, certain Project capital expenditures were incurred under the following funding sources:

	<u>2019</u>	<u>2018</u>
Grant No. 0438-RMI (ADB)	\$ 1,213,198	\$ 1,030,817
Grant No. 0439-RMI (Government of Australia)	975,080	694,250
RepMar	<u>1,743,496</u>	<u>1,067,677</u>
	\$ <u>3,931,774</u>	\$ <u>2,792,744</u>

(6) Employee Retirement Plan

KAJUR together with MEC and MWSC have implemented a RMI 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. KAJUR contributed \$37,222 and \$37,932 to Plan participant accounts during the years ended September 30, 2019 and 2018, respectively, and total combined plan assets were \$1,616,246 and \$1,490,260 as of September 30, 2019 and 2018, respectively.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2019 and 2018

(7) Related Party Transactions

KAJUR is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshalls Energy Company, Inc. (MEC).

KAJUR's utility service is provided to RepMar and all RepMar-owned and affiliated entities. Services are extended to these entities at more favorable terms and conditions than those afforded to third parties. KAJUR utilizes services from certain affiliated entities at substantially more favorable terms and conditions than those provided to third parties. A summary of related party transactions for the years ended September 30, 2019 and 2018 and the related receivable and payable balances as of September 30, 2019 and 2018, are as follows:

	2019		
	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 3,945,076	\$ 31,585	5,447,036
Marshall Islands National Telecommunications Authority	22,449	22,087	2,420
Marshall Islands Marine Resources Authority	26,268	267,131	-
RepMar	-	615,058	13,109
Others	<u>142,462</u>	<u>62,854</u>	<u>98,651</u>
	<u>\$ 4,136,255</u>	<u>\$ 998,715</u>	<u>\$ 5,561,216</u>
	2018		
	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 3,922,695	\$ 31,585	\$ 4,913,428
Marshall Islands National Telecommunications Authority	64,837	3,216	23,340
Marshall Islands Marine Resources Authority	26,268	239,547	-
RepMar	-	829,850	15,555
Others	<u>152,676</u>	<u>55,131</u>	<u>80,643</u>
	<u>\$ 4,166,476</u>	<u>\$ 1,159,329</u>	<u>\$ 5,032,966</u>

During the years ended September 30, 2019 and 2018, KAJUR was the recipient of operating subsidies from RepMar as follows:

	<u>2019</u>	<u>2018</u>
Compact of Free Association Kwajalein Impact Fund:		
Power Generation Support and Maintenance	\$ 1,327,860	\$ 1,327,860
KAJUR Power Generation	<u>462,000</u>	<u>-</u>
	<u>\$ 1,789,860</u>	<u>\$ 1,327,860</u>

During each of the years ended September 30, 2019 and 2018, KAJUR paid \$1,327,860 to Marshalls Energy Company, Inc. for the purchase of fuel.

During the years ended September 30, 2019 and 2018, KAJUR generated fuel sales of \$49,134 and \$93,247, respectively, from a local company in which a Board member has an ownership interest. As of September 30, 2019 and 2018, receivables from this related party total \$159,430 and \$154,358, respectively. During the year ended September 30, 2018, KAJUR purchased a \$24,900 vehicle from this related party.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2019 and 2018

(7) Related Party Transactions, Continued

In 2015, RepMar entered into a sub-grant agreement with the International Union for Conservation of Nature and Natural Resources, in which the Ministry of Natural Resources and Commerce will manage all necessary work facilitate implementation of the MEC and KAJUR Power Plants Fuel and Waste Oil Management System Upgrade Phase 1. In 2016, KAJUR received \$50,000 under this grant agreement. As of September 30, 2019 and 2018, the unexpended amount of \$22,478 is restricted within net position.

(8) Risk Management

KAJUR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. KAJUR has elected to purchase commercial insurance for the risks of loss to which it is exposed. Settled claims and losses as a result of these risks have not been considered material to the financial statements by management.

(9) Contingencies

KAJUR incurred losses from operations of \$3,458,115 and \$3,572,069 during the years ended September 30, 2019 and 2018, respectively. KAJUR depends on RepMar for cash and noncash funding to continue its operations. Although RepMar has provided funding in the past, no formal agreement exists to provide funds in the future. The continuation of KAJUR's operations is dependent upon future financial support from RepMar in the form of operating subsidies and/or significant improvements in operations through the collection of long outstanding utility receivables and other matters. Additionally, in order for KAJUR to continue as a going concern, it may need to delay payments to Marshalls Energy Company, Inc. for fuel purchases.

KAJUR participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. KAJUR's management believes that liabilities, if any, for reimbursement which may arise as a result of these audits will not be material to the financial position of KAJUR.

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

(10) Subsequent Event

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of September 11, 2020, there have been no confirmed cases of COVID-19 in the Marshall Islands. KAJUR has determined that should the pandemic reach the Marshall Islands, it may negatively impact KAJUR's business, results of operations, and financial position and KAJUR may become dependent upon the financial support of RepMar. However, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units may be limited. Therefore, while KAJUR expects this matter to potentially have a negative impact on its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time.

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

Board of Directors
Kwajalein Atoll Joint Utilities Resources, 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 Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), which comprise the statement of net position as of September 30, 2019, 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, which collectively comprise KAJUR's basic financial statements, and have issued our report thereon dated September 11, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2019-003, 2019-004, 2019-005, 2019-006 and 2019-008 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2019-007 to be significant deficiencies.

Compliance and Other Matters

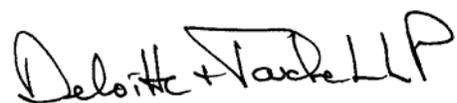
As part of obtaining reasonable assurance about whether KAJUR's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001.

KAJUR's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

September 11, 2020

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE SOLE MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for the Sole Major Federal Program

We have audited Kwajalein Atoll Joint Utilities Resources, Inc.'s (KAJUR) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on KAJUR's sole major federal program for the year ended September 30, 2019. KAJUR's sole major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for KAJUR's sole major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about KAJUR's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on the Sole Major Federal Program

As described in the accompanying Schedule of Findings and Questioned Costs, KAJUR did not comply with requirements regarding CFDA 15.875 Compact of Free Association, as Amended: Section 211 (b) (2) Landowners Special Needs - Kwajalein Impact Fund as described in items 2019-001 for Procurement and Suspension and Debarment and 2019-002 for Reporting. Compliance with such requirements is necessary, in our opinion, for KAJUR to comply with the requirements applicable to that program.

Qualified Opinion on the Sole Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, KAJUR complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the sole major federal program for the year ended September 30, 2019.

Report on Internal Control Over Compliance

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

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

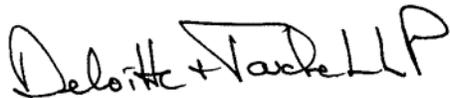
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002 that we consider to be material weaknesses.

KAJUR's response to the internal control over compliance findings identified in our audit is described in Schedule of Findings and Questioned Costs. KAJUR's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of KAJUR as of and for the year ended September 30, 2019, and have issued our report thereon dated September 11, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

September 11, 2020

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

<u>Program Title</u>	<u>Document #</u>	<u>Note</u>	<u>Expenditures FY19</u>
<u>U.S. Department of the Interior:</u>			
<u>CFDA #15.875</u>			
Compact of Free Association, As Amended, Section 211(b)(2)			
Landowners Special Needs - Kwajalein Impact Fund:			
Power Generation Support and Maintenance	D19AF00038-00040	(1)	\$ 1,327,860
KAJUR Power Generation	D19AF00038-00010	(2)	<u>297,312</u>
			<u>\$ 1,625,172</u>

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

The above expenditures reconcile to the underlying financial statements as follows:

- (1) Included within fuel and lubricants expense of \$4,011,662
- (2) Included within genset rental expense of \$335,689

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? Yes

Noncompliance material to financial statements noted? Yes

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? None noted

Type of auditors' report issued on compliance for major federal programs: Modified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? Yes

Identification of the sole major federal program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
15.875	Compact of Free Association, as Amended: Section 211 (b) (2) Landowners Special Needs - Kwajalein Impact Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? No

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Reference Number</u>	<u>Findings</u>
2019-001	RMI Procurement Code
2019-003	Accounts Receivable
2019-004	Materials and Supplies Inventory
2019-005	Capital Assets
2019-006	Financial Reporting
2019-007	Utility Revenues
2019-008	Fuel Inventory

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2019-001	15.875	Procurement and Suspension and Debarment	\$ 297,312
2019-002	15.875	Reporting	\$ -

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-001
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Compact of Free Association, as Amended: Section 211 (b) (2)
Landowners Special Needs - Kwajalein Impact Fund
Area: Procurement and Suspension and Debarment
RMI Procurement Code
Questioned Costs: \$297,312

Criteria: RepMar Procurement Code states the following:

- a. Section 124 - unless otherwise authorized by law, all government contracts shall be awarded by competitive sealed bidding.
- b. Section 127 - procurement of goods and services not exceeding \$25,000 may be in accordance with small purchases procedures promulgated by RepMar's Policy Office; provided, however that procurement requirements shall not be artificially divided so as to constitute a small purchase under this Section.
- c. Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply service, or construction item.

Condition: For the following, supporting documentation was inadequate to evidence the procurement process:

- a. 2 contractual services in an aggregate amount of \$364,817; of which \$297,312 is funded by a federal program
- b. 5 materials and supplies in an aggregate amount of \$33,580
- c. 1 fixed asset acquisition of \$36,490

Cause: The cause of the above condition is a lack of internal control policies and procedures supporting compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is potential noncompliance with RepMar's Procurement Code and questioned costs of \$297,312.

Identification as a Repeat Finding: Finding 2018-03, 2017-003, 2016-003, 2015-003 and 2014-001.

Recommendation: We recommend KAJUR adhere to RepMar's Procurement Code. In addition, competitive procurement rationale should be documented and be maintained in file.

Auditee Response and Corrective Action Plan: See the auditee-prepared corrective action plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-002
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Compact of Free Association, as Amended: Section 211 (b) (2)
Landowners Special Needs - Kwajalein Impact Fund
Area: Reporting
Questioned Costs: \$0

Criteria: Section 6 of the sub-recipient agreement with RepMar stipulates that KAJUR shall submit various reports as to the status of grant funds.

Condition: For the year ended September 30, 2019, there were no reports submitted reporting on the status of grant funds.

Cause: The cause of the above condition is a lack of internal control policies and procedures over compliance with the stipulations in the sub-recipient agreement.

Effect: The effect of the above condition is potential noncompliance with the stipulations in the sub-recipient agreement.

Recommendation: We recommend management comply with requirements stipulated by the sub-recipient agreement.

Auditee Response and Corrective Action Plan: See the auditee-prepared corrective action plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No. 2019-003

Accounts Receivable

Criteria: Timely collection of accounts receivables should be monitored to maximize collections and minimize future losses.

Condition:

- a. As of September 30, 2019, utility receivables aggregated \$2,289,509. Of this amount, \$2,142,027 has been long outstanding without adequate collection. Twenty-one customer accounts comprise 89% of this total.
- b. Certain customers continue to receive utility services without resolution of long outstanding balances.
- c. Of \$248,480 diesel fuel sales receivable at September 30, 2019, which includes \$159,430 due from a related party, a corresponding \$233,694 allowance for doubtful accounts was recognized.
- d. During the year ended September 30, 2019, KAJUR recorded \$66,020 of bad debts related to grant expenditures incurred that exceeded the contract amount. No written communication occurred between the grantor and KAJUR indicating that this amount will be reimbursed.

Cause: The cause of the above condition is a lack of adequate internal control policies and procedures that facilitate timely collections. In addition, a formal policy has not been implemented to standardize customer collections, which involve long outstanding receivables. Furthermore, KAJUR lacks mitigating measures including entering into collection agreements to recover long outstanding receivables.

Effect: The effect of the condition is potential limitations on KAJUR's cash flows and potential losses due to collectability.

Identification as a Repeat Finding: Finding 2018-01, 2017-001, 2016-001 and 2015-001.

Recommendation: We recommend KAJUR adopt internal control policies and procedures to recover long outstanding receivables and to minimize potential losses from uncollected balances. In addition, we recommend KAJUR monitor grant related expenditures and implement effective collection measures or enter into collection agreements with customers that have long outstanding balances.

Auditee Response and Corrective Action Plan: See the auditee-prepared corrective action plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No. 2019-004

Materials and Supplies

Criteria: Materials and supplies inventory should be periodically reviewed for accuracy and ongoing performance to properly report inventory, prepaid and expense accounts.

Condition: A \$159,693 year-end net adjustment of materials and supplies inventory resulted from the reconciliation of actual inventory on hand. We noted the following deficiencies:

- a. Materials and supplies were not supported by signed issuance tickets to evidence authorized issuance and acknowledged inventory receipts.
- b. Prepaid inventory is not correctly recorded and is not timely monitored. A \$738,831 year-end net adjustment of prepayments was required.
- c. Items purchased and received during the year were not properly supported by receiving reports.
- d. Approved work orders are not always prepared prior to inventory requests.

Cause: The cause of the above condition is due to ineffective internal controls over monitoring, reconciliation, and recording inventory transactions.

Effect: A significant number of year-end reconciling adjustments and a potential loss of materials and supplies results from this condition.

Identification as a Repeat Finding: Finding 2018-02, 2017-002, 2016-002.

Recommendation: We recommend management perform periodic reconciliation of materials and supplies inventory, utilization of inventory receiving and issuance forms, and timely monitoring of prepayment accounts.

Auditee Response and Corrective Action Plan: See the auditee-prepared corrective action plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No. 2019-005

Capital Assets

Criteria: Capital assets register should be timely reconciled with the general ledger. Further, capital assets verification should be periodically performed to identify items for recordation and retirement.

Condition:

- a. The capital asset register is not timely reconciled with the general ledger. Accumulated depreciation per the capital asset register was overstated by \$54,884 when compared with the general ledger. Further, the capital asset register does not include 1) reverse osmosis construction of \$3,378,663 transferred from construction in progress in FY18 and 2) the breakdown of beginning construction work in progress of \$2,852,110.
- b. KAJUR does not monitor recording of construction in progress related to Ebeye Water Supply Sanitation Project.
- c. KAJUR has not implemented adequate internal control over monitoring use of Company vehicles and related gas usage.
- d. Of four capital asset additions tested, two instances were not supported by receiving reports. Further, three were identified as noncompliant with the RMI procurement code.
- e. KAJUR lacks adequate documentation to support that a capital asset inventory is periodically performed:

Of 62 capital assets tested for verification:

- Thirty-seven were identified as not useable, damaged, cannot be found and or replaced. Of the thirty-seven identified, nine have remaining net book values as of September 30, 2019. A \$94,574 loss on capital asset retirement was proposed for this matter during the audit process.
- Six were identified as repairable with a net book value of \$55,183.
- One donated asset has not been recorded.

Cause: The cause of the above condition is due to ineffective internal controls over monitoring, reconciliation, and recording capital asset transactions.

Effect: The effect of the above condition is a possible misstatement of capital assets.

Recommendation: We recommend KAJUR update and timely reconcile the capital asset register. In addition, KAJUR may consider providing a log per vehicle that tracks the user, mileage, and trip purpose to monitor if usage is work related. Furthermore, we recommend KAJUR perform periodic inventories of capital assets to identify if assets should be considered for disposal or retirement.

Auditee Response and Corrective Action Plan: See the auditee-prepared corrective action plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No. 2019-006

Financial Reporting

Criteria: Timely financial reporting should be facilitated by internal control conducive to the preparation and independent review of reconciliations of significant general ledger accounts.

Condition: KAJUR did not close fiscal year September 30, 2019 financial information until February 12, 2020. Furthermore, various accounting records do not appear to have been timely processed and updated including, but not limited to the following:

- a. Beginning net position - understated by \$453,054
- b. Utility receivables - understated by \$155,197
- c. Compact funding receivables - understated by \$13,724
- d. Prepayments - net yearend adjustment of \$739,831
- e. Construction in progress - understated by \$216,441
- f. Depreciable capital assets – understated by \$2,990,855
- g. Accounts payable - understated by \$70,104
- h. Unearned revenue - understated by \$106,710
- i. FY18 transactions adjusted and recorded in FY19:
 - i.1. \$9,750 unrecorded rental revenues
 - i.2. \$8,200 adjustment to diesel fuel sales

Cause: The cause of the above condition is the lack of timely closing of the year-end financial statements with review and reconciliation of significant general ledger accounts.

Effect: The trial balance and subsidiary ledgers were not timely provided. Various material post-closing and audit entries were required to correct the financial records.

Recommendation: We recommend management implement internal control procedures to facilitate timely general ledger and subsidiary ledger reconciliation processes.

Auditee Response and Corrective Action Plan: See the auditee-prepared corrective action plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No. 2019-007

Utility Revenues

Criteria: Sale of electricity should be recorded as billed to the customers on a monthly billing cycle basis.

Condition: KAJUR has customers that possess temporary electric postpaid meters and related revenues are recorded by KAJUR upon collection of a portion of the customers' prepaid cash power and not when electricity was actually consumed. As a result, gross revenues of \$86,211 were untimely recorded, \$21,815 of which remained unrecorded at yearend. An audit adjustment was proposed to correct this matter.

Cause: The cause of the above condition is a lack of internal control policies and procedures over the timely recording of revenues from customers that are in temporary electric postpaid meters.

Effect: The effect of the above condition is possible misstatement in revenues and receivables.

Recommendation: We recommend management establish internal control procedures over the timely recording of revenues from customers that are in temporary electric postpaid meters.

Auditee Response and Corrective Action Plan: See the auditee-prepared corrective action plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No. 2019-008

Fuel Inventory

Criteria: Internal control procedures should be in place in order to safeguard KAJUR's fuel inventory. Valid, complete and approved documentation should be available to support inventory movements, such as periodic fuel dips, bunker delivery receipt and issuance tickets.

Condition: We noted the following observations over fuel inventory and related accounts:

- a. Fuel inventory was understated by \$48,402 as of March 31, 2019.
- b. An unreconciled variance of \$36,762 was credited to fuel sales.
- c. Bunker delivery receipts (BDRs) do not reflect actual fuel delivery dates.
- d. For 2 samples, issuance tickets were not prepared to support internal fuel usage.
- e. A fuel purchase of 70,000 gallons in March 2019 was reported on March 2, 2019; however, the bunker delivery receipt was dated March 16, 2019.

Cause: The cause of the above condition is a lack of internal control policies and procedures over fuel inventory movements.

Effect: The effect of the above condition is possible misstatement of inventories, expenses or revenues.

Recommendation: We recommend management establish internal control procedures over:

- a. Review of the periodic fuel inventory dip. Reviewer should require complete documentation of the fuel logs, receiving reports (inbound) and delivery details (outbound);
- b. Regular reconciliation of fuel inventory, expense and payable accounts; including reconciliation of accounts and deliveries from MEC; and
- c. Completion of BDRs and issuance tickets completely and accurately to reflect the actual fuel delivery date and usage, respectively.

Auditee Response and Corrective Action Plan: See the auditee-prepared corrective action plan.

**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
Year Ended September 30, 2019**



Finding No. 2019-001: Procurement and Suspension and Debarment

Name of Contact Person: Joseph Pedro (General Manager)

Corrective Action Plan: KAJUR agrees with this finding. KAJUR has to strengthen its purchasing policies and procedures in accordance to the RepMar Procurement Code. KAJUR is planning to utilize Tenderlink application for transparency and compliance to the requirements of the RepMar Procurement Code.

Proposed Completion Date: Ongoing

Finding No. 2019-002: Reporting

Name of Contact Person: Joseph Pedro (General Manager)

Corrective Action Plan: KAJUR agrees with this finding and will ensure compliance with the sub-recipient agreement requirements.

Proposed Completion Date: Ongoing

Finding No. 2019-003: Accounts Receivable

Name of Contact Person: Joseph Pedro (General Manager)

Corrective Action Plan: KAJUR agrees to this finding and further noted it being a repeated finding since 2015. As noted in our 2019 audit, KAJUR continues to struggle in its ability to collect long outstanding (AR) balances. There are a series of contributing factors, the leading being the one noted by the independent auditing firm as lack of internal control policies and procedures.

There are also ongoing efforts under the Ebeye Water Supply and Sanitation Project (EWSSP) to develop and increase KAJUR's capacity in financial management and to improve KAJUR's ability to collect its account receivable over the course of the EWSSP implementation phase.

In the short term, this year MEC has started providing assistance to KAJUR in streamlining its procurement, inventory and accounting procedures to mirror some of the improvements now being observed at MEC. Over courses of visits to Ebeye, KAJUR will meet specific and or have met specific milestones which have been mutually established between KAJUR and MEC.

Proposed Completion Date: Ongoing

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
Year Ended September 30, 2019

Finding No. 2019-004: Materials and Supplies Inventory

Name of Contact Person: Joseph Pedro (General Manager)

Corrective Action Plan: KAJUR agrees to this finding and further noted it being a repeated finding since 2016. As with finding 2019-003 (Accounts Receivable), KAJUR also recognizes the need to strengthen its internal control and reconciliation of material and supply inventory. In March 2019, MEC conducted an internal analysis of KAJUR's Accounting and Supply system. From this analysis, a series of visits to Ebeye have been scheduled for MEC to help KAJUR strengthen its procurement and inventory work process.

From these initial exercises described above, it was mutually agreed that KAJUR will fully utilize the inventory functionality in its Microix Supply and Procurement system which is now currently in the process, with the assistance and support from MEC.

Proposed Completion Date: Ongoing

Finding No. 2019-005: Capital Assets

Name of Contact Person: Joseph Pedro (General Manager)

Corrective Action Plan: KAJUR agrees with this finding and will make all efforts to ensure timely reconciliation and verification of assets.

Proposed Completion Date: Ongoing

Finding No. 2019-006: Financial Reporting

Name of Contact Person: Joseph Pedro (General Manager)

Corrective Action Plan: FY2019 was a challenging year for KAJUR; from the loss of main generators to the loss of Key staff in operations and finance. The loss of onsite leadership, especially in the Finance Department, mainly attributed to this unfavorable result at yearend. KAJUR agrees with this finding and is working on getting the needed support from MEC. KAJUR looks also to hiring a key Finance person to be stationed at KAJUR, to ensure accurate and timely financial reporting and to ensure that policies and procedures for financial recording are consistently followed. In addition, KAJUR also looks to increased internal and external training to strengthen existing HR capabilities.

Proposed Completion Date: Ongoing

Finding No. 2019-007: Utility Revenues

Name of Contact Person: Joseph Pedro (General Manager)

Corrective Action Plan: KAJUR agrees with this finding. KAJUR will establish internal control procedures in order to timely record revenues earned from customers in temporary electric postpaid meters.

Proposed Completion Date: Ongoing

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
Year Ended September 30, 2019

Finding No. 2019-008: Fuel Inventory

Name of Contact Person: Joseph Pedro (General Manager)

Corrective Action Plan: Fuel inventory has been one of KAJUR's highest expenses. In previous fiscal years and especially in FY19, KAJUR has attempted to rectify and improve its policy and procedures on how it handles its fuel inventory operations. In FY19, KAJUR had major engine failures causing power outages, water shortages and more importantly key personnel migrating to the mainland USA, or seeking better opportunities with much higher salary jobs on Kwajalein. With these few listed obstacles and challenges, it was difficult to implement a more robust and strict procedures and policies to guide KAJUR with its fuel operations.

KAJUR agrees with Finding No. 2019-008 and will write up strict policies, implement and standardize its procedures, and put in place a more strategic and reliable inventory tracking system for its purchasing of fuels. These will be achieved by utilizing an inventory system that is currently in use for purchasing fuel using purchasing order, receiving the purchase order and tracking fuel movements in the system. By utilizing a purchase tracking, inventory tracking and audit trail of each transactions, manual processes will be eliminated and all inputs will be stored in the purchasing and inventory software.

KAJUR will seek and look for ways to train its employee on fuel operations to ensure that fuel pipe line leakages, causing fuel losses and hazardous working environment, are avoided.

Proposed Completion Date: Ongoing



KAJUR
KWAJALEIN ATOLL JOINT UTILITY RESOURCES, INC.
Energizing the People of Tarlang Since 1990

**Summary Schedule of Prior Audit Findings and
Questioned Costs
Year Ended September 30, 2019**

Questioned Costs:

The prior year report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2019.

Questioned costs as previously reported	\$ -
Questioned costs of fiscal year 2019	<u>297,312</u>
Unresolved questioned costs at September 30, 2019	\$ <u>297,312</u>

Summary Schedule of Prior Audit Findings

<u>Finding No.</u>	<u>Status</u>
2018-001	Not corrected. Refer to the planned corrective action plan for Finding 2019-003.
2018-002	Not corrected. Refer to the planned corrective action plan for Finding 2019-004.
2018-003	Not corrected. Refer to the planned corrective action plan for Finding 2019-001.