

**REPUBLIC OF THE MARSHALL ISLANDS
EBEYE WATER SUPPLY AND SANITATION PROJECT
(JOINTLY FINANCED BY THE ASIAN DEVELOPMENT BANK'S
SPECIAL FUND (GRANT NO. 0438-RMI (SF))
AND THE GOVERNMENT OF AUSTRALIA
(GRANT NO. 0439-RMI (EF)))**

**FINANCIAL STATEMENT,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

**PERIOD FROM INCEPTION (OCTOBER 13, 2015)
THROUGH SEPTEMBER 30, 2017**

**REPUBLIC OF THE MARSHALL ISLANDS
EBEYE WATER SUPPLY AND SANITATION PROJECT
(JOINTLY FINANCED BY THE ASIAN DEVELOPMENT BANK'S
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Period from Inception (October 13, 2015) through September 30, 2017

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INDEPENDENT AUDITORS' REPORT

Her Excellency Hilda C. Heine
President
Republic of the Marshall Islands

Report on the Financial Statement

We have audited the accompanying financial statement of the Republic of the Marshall Islands (RMI) Ebeye Water Supply and Sanitation Project (the "Project") jointly financed by the Asian Development Bank's Special Fund (Grant Number 0438-RMI (SF)) and the Government of Australia (Grant Number 0439-RMI (EF)), which comprises the statement of revenues, expenditures, and changes in fund balance for the period from inception (October 13, 2015) through September 30, 2017, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement 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 the financial statement based on our audit. We conducted our audit 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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 statement referred to above presents fairly, in all material respects, the results of operations of the Project for the period from inception (October 13, 2015) through September 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 1 to the financial statement, the financial statement referred to above presents only the activities of the Project administered by the RMI Ministry of Finance and implemented by the Kwajalein Atoll Joint Utilities Resources, Inc. and is not intended to present fairly the results of other non-Project related operations of the RMI Ministry of Finance in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

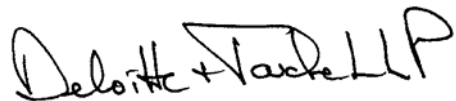
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The combining financial statement information on page 7 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of the RMI Ministry of Finance's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statement information is fairly stated, in all material respects, in relation to the financial statement as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018, on our consideration of the Project's internal control over financial reporting and 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 the Project'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 the Project's internal control over financial reporting and compliance.



November 28, 2018

**REPUBLIC OF THE MARSHALL ISLANDS
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 SPECIAL FUND (GRANT NO. 0438-RMI (SF)) AND
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Statement of Revenues, Expenditures, and Changes in Fund Balance
 Period from Inception (October 13, 2015) through September 30, 2017

Revenues:	
RMI contributions	\$ 2,065,977
ADB grant contributions	1,882,619
GOA grant contributions	<u>1,504,638</u>
Total revenues	<u>5,453,234</u>
Expenditures:	
Equipment	3,643,910
Consulting	<u>1,809,324</u>
Total expenditures	<u>5,453,234</u>
Changes in fund balance	-
Fund balance at beginning of period	<u>-</u>
Fund balance at end of period	<u><u>\$ -</u></u>

See accompanying notes to financial statement.

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Notes to Financial Statement
Period from Inception (October 13, 2015) through September 30, 2017

(1) Organization

On September 28, 2015, the Asian Development Bank (ADB) approved to partially fund the Republic of the Marshall Islands (RMI) Ebeye Water Supply and Sanitation Project (the "Project"), estimated to cost \$19,020,000. The objective of the Project is to improve access to safe water and to improve sanitation on Ebeye, Kwajalein Atoll in the RMI.

On October 13, 2015, ADB executed two grant agreements with the RMI for the Project as follows:

- Grant Number 0438-RMI (SF) in the amount of \$5,000,000 to be financed by the ADB's Asian Development Fund (ADF), which was established in 1973 and provides grants to ADB's lower-income developing member countries. Activities supported by the ADF promote poverty reduction and improvements in the quality of life in the poorer countries of the Asia and Pacific region.
- Grant Number 0439-RMI (EF) in the amount of \$4,000,000 to be financed by the Government of Australia (GOA). ADB administers this grant in accordance with a Cofinancing Agreement with GOA.

The remaining estimated costs of the Project of \$10,020,000 are to be funded by the RMI.

The RMI Minister of Finance is designated as the representative of the RMI for the purposes of the grant regulations. The Project is overseen by a Project Steering Committee, and the RMI Office of the Chief Secretary is the Project Executing Agency. The ADB entered into a project agreement with Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) for the purpose of implementing the Project.

The accompanying financial statement is prepared for the period from inception (October 13, 2015) through September 30, 2017 and relates solely to those accounting records maintained by the RMI Ministry of Finance associated with the Project and does not incorporate any accounts related to any other departments or agencies of the RMI Ministry of Finance.

(2) Summary of Significant Accounting Principles

The financial statement of the Project has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Project's accounting policies are described below.

A. Measurement Focus and Basis of Accounting

The Project reports the results of its operations in one governmental fund. A fund is a separate accounting entity with a self-balancing set of accounts. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

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Notes to Financial Statement
Period from Inception (October 13, 2015) through September 30, 2017

(2) Summary of Significant Accounting Principles, Continued

B. Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred.

C. Estimates

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

(3) Description of the Project

The Project's key outputs are:

- (i) Secure and safe freshwater supplies – Ebeye's public water supply system will be improved and safe freshwater supplied continuously to all households
- (ii) Effective and efficient sewerage services – The sewerage system on Ebeye will be upgraded to minimize the frequency and severity of uncontrolled sewage overflows and to reduce the environmental and health impacts of effluent disposal
- (iii) Enhanced hygiene awareness and improved hygiene behaviors – A hygiene awareness and promotion program focusing on women and children, and building upon hygiene awareness and promotion activities undertaken during project preparation, will be implemented over the duration of the Project
- (iv) Secure electricity supply for water and sewerage operations – The power generation and electrical distribution system on Ebeye will be improved to reduce risks to Ebeye's water supply and sewerage systems
- (v) Financial and technical sustainability of KAJUR – A Program will be implemented to help KAJUR implement its reform strategy to build its financial, technical, and operational sustainability.

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Notes to Financial Statement
Period from Inception (October 13, 2015) through September 30, 2017

(3) Description of the Project, Continued

Project expenditures are funded in accordance with the following allocations:

<u>Category</u>	<u>Grant No. 0438-RMI (SF)</u>	<u>Grant No. 0439-RMI (EF)</u>	<u>RMI Grants</u>	<u>Total</u>
Civil Works	37.2%	24.8%	38.0%	100.0%
Equipment and Materials	32.3%	25.8%	41.9%	100.0%
Consulting Services	39.0%	31.2%	29.8%	100.0%

Project expenditures are paid using the Direct Payments method following ADB's withdrawal application method.

Project activities are scheduled to be completed by July 13, 2021 or five months before the expected project closing date of December 31, 2021.

(4) RMI Government Contributions

Under the provisions of the grant agreements, the RMI is required to provide counterpart funding for the Project aggregating \$10,020,000, inclusive of \$1,860,000 in taxes and duties exemption. The RMI's cash contribution is financed by certain U.S. Department of the Interior federal grants, awarded and made available to the RMI as the Project progresses. For the period from inception (October 13, 2015) through September 30, 2017, the RMI made available \$2,065,977 in counterpart funding.

(5) Capital Contributions to KAJUR

In accordance with the ADB grant agreements, grant proceeds are made available by the RMI to KAJUR for the purpose of financing Project expenditures, although no grant funds are actually passed through to KAJUR. During the year ended September 30, 2017, KAJUR recorded capital contributions in the amount of \$3,213,670 representing construction work-in-progress for the Salt Water Reverse Osmosis (SWRO) equipment, which was commissioned on October 7, 2017. The SWRO was funded as follows:

Grant No. 0438-RMI (SF)	\$ 1,038,015
Grant No. 0439-RMI (EF)	829,127
RMI grants	<u>1,346,528</u>
	<u>\$ 3,213,670</u>

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Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Period from Inception (October 13, 2015) through September 30, 2017

	<u>ADB</u> <u>Grant 0438</u>	<u>GOA</u> <u>Grant 0439</u>	<u>RMI</u>	<u>Total</u>
Revenues:				
RMI contributions	\$ -	\$ -	\$ 2,065,977	\$ 2,065,977
ADB grant contributions	1,882,619	-	-	1,882,619
GOA grant contributions	<u>-</u>	<u>1,504,638</u>	<u>-</u>	<u>1,504,638</u>
Total revenues	<u>1,882,619</u>	<u>1,504,638</u>	<u>2,065,977</u>	<u>5,453,234</u>
Expenditures:				
Equipment	1,176,983	940,129	1,526,798	3,643,910
Consulting	<u>705,636</u>	<u>564,509</u>	<u>539,179</u>	<u>1,809,324</u>
Total expenditures	<u>1,882,619</u>	<u>1,504,638</u>	<u>2,065,977</u>	<u>5,453,234</u>
Changes in fund balance	-	-	-	-
Fund balance at beginning of period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditors' report.

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

Her Excellency Hilda C. Heine
President
Republic of the Marshall Islands:

We have audited, in accordance with the 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 statement of the Republic of the Marshall Islands (RMI) Ebeye Water Supply and Sanitation Project (the "Project") jointly financed by the Asian Development Bank's Special Fund (Grant Number 0438-RMI (SF)) and the Government of Australia (Grant Number 0439-RMI (EF)), which comprises the statement of revenues, expenditures, and changes in fund balance for the period from inception (October 13, 2015) through September 30, 2017, and the related notes to the financial statement, and have issued our report thereon dated November 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Project'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 statement, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project'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.

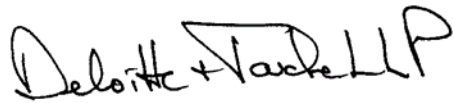
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statement is 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

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

November 28, 2018

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Unresolved Prior Year Findings
Period from Inception (October 13, 2015) through September 30, 2017

There are no unresolved prior year findings.