

REPUBLIC OF THE MARSHALL ISLANDS
ASIAN DEVELOPMENT BANK GRANT 0637 RMI (SF)
ENERGY SECURITY PROJECT

FINANCIAL STATEMENT,
ADDITIONAL INFORMATION
AND INDEPENDENT AUDITOR'S REPORT

PERIOD FROM INCEPTION (DECEMBER 13, 2018)
THROUGH SEPTEMBER 30, 2021

REPUBLIC OF THE MARSHALL ISLANDS
ASIAN DEVELOPMENT BANK GRANT 0637 RMI (SF)
ENERGY SECURITY PROJECT

Period from Inception (December 13, 2018) through September 30, 2021

Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITOR'S REPORT	1
II. FINANCIAL STATEMENT:	
Schedule of Receipts and Disbursements	4
Notes to the Schedule of Receipts of Disbursements	5
III. OTHER SUPPLEMENTARY INFORMATION:	
Schedule of Budgeted v Actual Disbursements	6
IV. INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
Independent Auditor's 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	7

INDEPENDENT AUDITOR'S REPORT

Honorable Minister Brenson S. Wase
Ministry of Finance, Banking and Postal Services
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) Energy Security Project (the "Project"), financed by the Asian Development Bank's Special Fund (Grant Number 0637-RMI (SF)), which comprises the schedule of receipts and disbursements for the period from inception (December 13, 2018) through September 30, 2021, 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 the cash basis of accounting described in Note 2 to the financial statement; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for 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.

Auditor's 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 cash receipts and disbursements of the Project for the period from inception (December 13, 2018) through September 30, 2021, in accordance with the cash basis of accounting described in Note 2 to the financial statement.

Basis of Accounting

We draw attention to Note 2 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

Reporting Entity

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, Banking and Postal Services and implemented by the Marshalls Energy Company (MEC) and is not intended to present fairly the results of other non-Project related operations of the RMI Ministry of Finance, Banking and Postal Services and MEC 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

Use of Proceeds of the Grant and Particular Covenants

In connection with our audit, nothing came to our attention that caused us to believe that the Project failed to comply with the terms, covenants, provisions, or conditions of Articles III and IV of the grant agreement dated December 13, 2018 insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Project's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the grant agreement, insofar as they relate to accounting matters.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The other supplementary information on page 6 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, Banking and Postal Services and MEC'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 other supplementary information is fairly stated, in all material respects, in relation to the financial statement as a whole.

Restricted Use Relating to Other Matters

The communication related to compliance with the aforementioned grant agreement described in the Other Matters paragraph is intended solely for the information and use of the RMI Ministry of Finance, Banking and Postal Services and MEC's management and the Asian Development Bank and is not intended to be and should not be used by anyone other than these specified parties.



Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 1, 2022, 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 in considering the Project's internal control over financial reporting and compliance.

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

August 1, 2022

**REPUBLIC OF THE MARSHALL ISLANDS
ASIAN DEVELOPMENT BANK GRANT 0637 RMI (SF)
ENERGY SECURITY PROJECT**

Schedule of Receipts and Disbursements
Period from Inception (December 13, 2018) Through September 30, 2021

Cash receipts:	
ADB grant contributions	\$ <u>42,242</u>
Cash disbursements:	
Investment costs:	
Consultants	<u>42,242</u>
Excess of cash receipts over cash disbursements	<u><u>\$ -</u></u>

See accompanying notes to financial statement.

REPUBLIC OF THE MARSHALL ISLANDS
ASIAN DEVELOPMENT BANK GRANT 0637 RMI (SF)
ENERGY SECURITY PROJECT

Notes to Financial Statement
Period from Inception (December 13, 2018) through September 30, 2021

(1) Organization

On December 13, 2018, the Republic of the Marshall Islands (RMI) entered into a grant agreement (Grant Number 0637 RMI (SF)) with the Asian Development Bank (ADB) in the amount of \$12,700,000 for the Energy Security Project (the Project), with a grant closing date of June 30, 2024. The objective of the Project is to achieve sustained, safe, and reliable operation of the Majuro tank farm and continued supply of fuel to power generation facilities throughout the Marshall Islands.

The RMI Ministry of Finance, Banking and Postal Services is designated as the representative of the RMI for the purposes of the grant regulations. MEC, as the Project Implementation Agency, is responsible for carrying out the Project. The accompanying schedule of receipts and disbursements is prepared for the period from inception (December 13, 2018) through September 30, 2021, and solely incorporates the activities of the Project maintained by MEC and does not incorporate any accounts related to any other departments or agencies of the RMI Ministry of Finance, Banking and Postal Services or MEC.

(2) Summary of Significant Accounting Principles

Basis of Accounting

The Project's policy is to maintain its accounts and prepare its financial statement on the cash receipts and disbursements basis of accounting. All transactions are recognized as receipts or disbursements, including direct payments made by the ADB to vendors. Direct payments are disbursements made by the ADB, at the request of MEC, to designated beneficiaries (e.g., supplier, contractor, or consultant) directly. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts/revenues are recognized when received rather than when earned and disbursements/expenses are recognized when paid rather than when the obligation is incurred.

(3) Direct Payments by the ADB

For the period from inception (December 13, 2018) through September 30, 2021, direct payments by the ADB to the consultant amounted to \$42,242.

(4) Subsequent Events

On December 8, 2021, the ADB approved the extension of the grant to a closing date of June 30, 2025.

On December 17, 2021, the RMI entered into a grant agreement with the ADB in the amount of \$7,000,000 as financing for additional Project facilities and consulting services.

REPUBLIC OF THE MARSHALL ISLANDS
ASIAN DEVELOPMENT BANK GRANT 0637 RMI (SF)
ENERGY SECURITY PROJECT

Schedule of Budgeted v Actual Receipts and Disbursements
Period From Inception (December 13, 2018) through September 30, 2021

	Budget				Actual				Variance			
	ADB	RMI	MEC	Total	ADB	RMI	MEC	Total	ADB	RMI	MEC	Total
Cash receipts:												
ADB grant contributions	\$ 12,700,000	\$ -	\$ -	\$ 12,700,000	\$ 42,242	\$ -	\$ -	\$ 42,242	\$ 12,657,758	\$ -	\$ -	\$ 12,657,758
RMI contributions	-	3,107,000	-	3,107,000	-	-	-	-	-	3,107,000	-	3,107,000
MEC contributions	-	-	993,000	993,000	-	-	-	-	-	-	993,000	993,000
	<u>12,700,000</u>	<u>3,107,000</u>	<u>993,000</u>	<u>16,800,000</u>	<u>42,242</u>	<u>-</u>	<u>-</u>	<u>42,242</u>	<u>12,657,758</u>	<u>3,107,000</u>	<u>993,000</u>	<u>16,757,758</u>
Cash disbursements:												
Investment costs:												
Rehabilitation of Fuel Tanks	12,000,000	985,000	315,000	13,300,000	-	-	-	-	12,000,000	985,000	315,000	13,300,000
Consultants	700,000	-	-	700,000	42,242	-	-	42,242	657,758	-	-	657,758
Contingencies:												
Physical	-	1,757,000	543,000	2,300,000	-	-	-	-	-	1,757,000	543,000	2,300,000
Price	-	365,000	135,000	500,000	-	-	-	-	-	365,000	135,000	500,000
	<u>\$ 12,700,000</u>	<u>\$ 3,107,000</u>	<u>\$ 993,000</u>	<u>\$ 16,800,000</u>	<u>\$ 42,242</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,242</u>	<u>\$ 12,657,758</u>	<u>\$ 3,107,000</u>	<u>\$ 993,000</u>	<u>\$ 16,757,758</u>

See accompanying Independent Auditor's Report.

INDEPENDENT AUDITOR'S 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

Honorable Minister Brenson S. Wase
Ministry of Finance, Banking and Postal Services
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) Energy Security Project (the "Project"), financed by the Asian Development Bank's Special Fund (Grant Number 0637-RMI (SF)), which comprises the schedule of receipts and disbursements for the period from inception (December 13, 2018) through September 30, 2021, and the related notes to the financial statement, and have issued our report thereon dated August 1, 2022.

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 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 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, flowing style.

August 1, 2022