

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, 2020 and 2019

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Years Ended September 30, 2020 and 2019
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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, 2020 and 2019, 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, 2020 and 2019, 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.

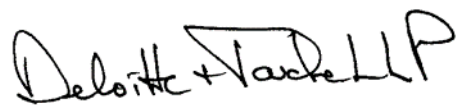
Other Matters

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 April 5, 2022, 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.



April 5, 2022

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis Years Ended September 30, 2020 and 2019

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 management contract to the American Samoa Power Authority (ASPA) to assume operational control of KAJUR for a period of 2 years. This management contract was extended for an additional 2 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 includes Gugeegue and smaller island communities connected to Ebeye by the causeway. At the closing of FY2020, KAJUR has under its employment a total of 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 increase the production and frequency of water distribution by two-fold and brings the community much closer to their ultimate desire for 24/7 freshwater service to the whole island. Other improvements to KAJUR's existing infrastructure now visible on the ground includes the 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 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 advanced 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.

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.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis, Continued
Years Ended September 30, 2020 and 2019

FINANCIAL HIGHLIGHTS, CONTINUED

Leading into Fiscal Year 2021, 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 installation of prepaid electrical meters to all government buildings, the installation of prepaid water meters for all water consumers in Ebeye, and for Marshalls Energy Company (MEC) to provide technical assistance to KAJUR in managing its 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.

KAJUR also recognizes the "baby steps" it can take immediately to improve its accounting and supply system. As noted from KAJUR's 2020 financial audit, 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. Some internal accounting processes within KAJUR have already been modified as part of these overall improvements but KAJUR still recognizes the need for continued financial assistance from MEC during the course of the year.

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

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Assets:					
Current and other assets	\$ 995,254	\$ 889,292	\$ 105,962	11.9%	\$ 1,492,033
Capital assets	11,712,361	10,757,421	954,940	8.9%	7,720,760
Total assets	12,707,615	11,646,713	1,060,902	9.1%	9,212,793
Liabilities:					
Current and other liabilities	7,048,295	6,057,133	991,162	16.4%	5,539,296
Net position:					
Net investment in capital					
assets	11,712,361	10,757,421	954,940	8.9%	7,720,760
Restricted	22,478	187,166	(164,688)	(88.0)%	22,478
Unrestricted	(6,075,519)	(5,355,007)	(720,512)	13.5%	(4,069,741)
Total net position	\$ 5,659,320	\$ 5,589,580	\$ 69,740	1.2%	\$ 3,673,497

KAJUR's current and other assets increased by \$105,962 to \$995,254 in FY2020, the increase mainly relates to the increase in receivables from MEC, which increased from \$31,585 in FY2019 to \$150,155 in FY2020. Furthermore, KAJUR's capital assets increased substantially by \$954,940. The increase in capital assets is attributed to the continuing infusion of funds for infrastructure from the EWSSP.

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 on Ebeye and other nearby island communities in order to maintain the tariff at a level that is affordable for these communities.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis, Continued
Years Ended September 30, 2020 and 2019

FINANCIAL ANALYSIS OF KAJUR, CONTINUED

KAJUR continues to owe a significant amount in liabilities for purchases of diesel fuel for KAJUR operations to MEC. KAJUR's fuel liability to MEC increased by \$829,539 from \$5,447,036 in FY2019 to \$6,276,575 in FY2020 compared to an increase of \$533,608 in FY2019 from \$4,913,428 in FY2018 to \$5,447,036 in FY2019. It is anticipated that approximately \$1.3m in allocated subsidy in 2021 from the REPMAR appropriation will be used to reduce the outstanding balance owed to MEC. KAJUR looks to more aggressive means of collecting its accounts receivable along with other means of generating more revenue as short-term alternatives to improving KAJUR's cash position to address this situation.

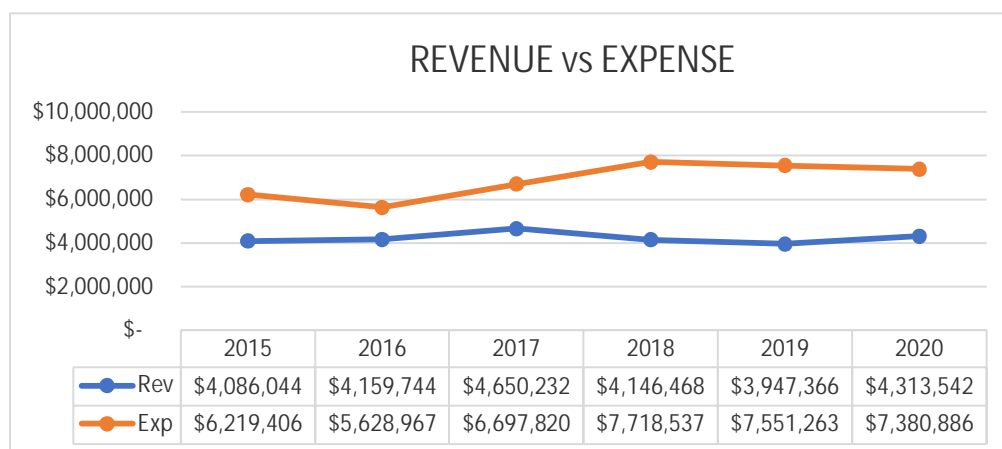
A comparative summary of KAJUR's Statement of Revenues, Expenses and Changes in Net Position is presented below:

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

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Revenues:					
Operating revenues	\$ 4,313,542	\$ 3,947,366	\$ 366,176	9.3%	\$ 4,146,468
Nonoperating revenues	1,561,712	1,935,642	(373,930)	(19.3)%	1,327,860
Capital contributions	1,759,808	3,931,774	(2,171,966)	(55.2)%	2,792,744
Total revenues	7,635,062	9,814,782	(2,179,720)	(22.2)%	8,267,072
Nonoperating:					
Operating expenses	1,380,886	1,551,263	(170,377)	(2.3)%	1,118,531
Nonoperating expenses	184,436	347,436	(163,000)	(46.9)%	131,254
Total expenses	7,565,322	7,898,699	(333,377)	(4.2)%	7,849,791
Change in net position	\$ 69,740	\$ 1,916,083	\$ (1,846,343)	(96.4)%	\$ 411,281

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 decreased by \$2,179,720 (or 22%) from \$9,814,782 in FY2019 to \$7,635,062 in FY2020. The decrease in revenue is mainly attributed to the decrease 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.

An analysis of the gap between operating revenues and operating expenses for the past 6 years follows:

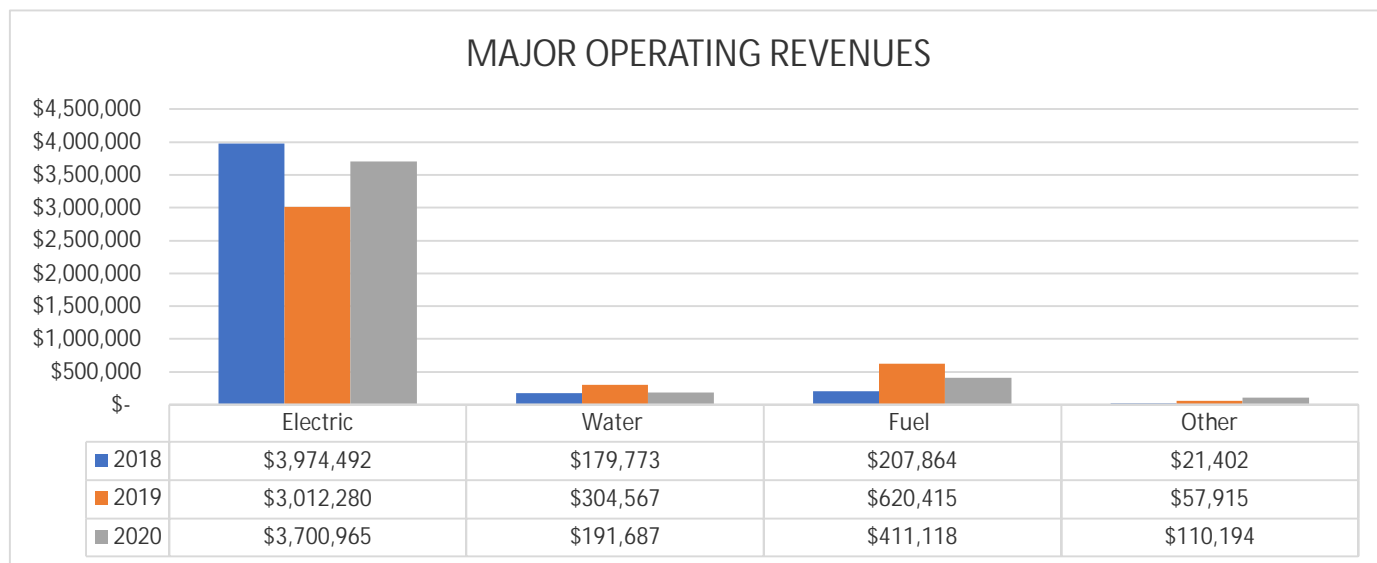


KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis, Continued
Years Ended September 30, 2020 and 2019

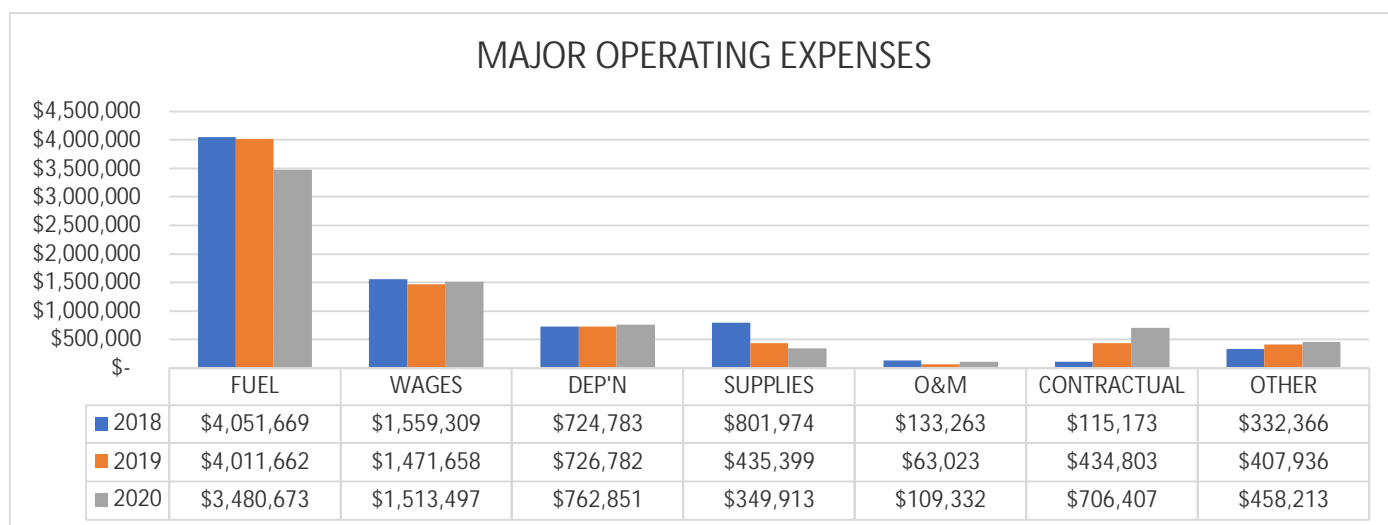
FINANCIAL ANALYSIS OF KAJUR, CONTINUED

The graph below shows a comparative analysis of revenue trends from major components of KAJUR's operating revenues for 2020, 2019 and 2018.



As expected, fuel and lube continued to be the leading expense items among KAJUR's operational expenses representing 47% and 53% for years FY2020 and FY2019, respectively. The decrease in operating expenses of \$170,377 from \$7,551,263 in FY2019 to \$7,380,886 in FY2020 is attributed to the decrease in some of the major expenses, mainly fuel expense due to a decrease in prices in FY2020 compared to FY2019.

See graph below for a comparative analysis of major components of KAJUR's operating expenses for 2020, 2019 and 2018.



KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis, Continued
Years Ended September 30, 2020 and 2019

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:

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Nondepreciable assets:					
Construction in progress	\$ 714,022	\$ 3,355,639	\$ (2,641,617)	(78.7)%	\$ 2,852,110
Depreciable assets:					
Plant and machinery	\$ 3,045,883	\$ 3,745,133	\$ (699,250)	(18.7)%	\$ 5,424,285
Distribution system	2,125,576	2,184,814	(59,238)	(2.7)%	2,161,074
Water system	12,259,712	8,513,958	3,745,754	44.0%	5,292,245
Other equipment	1,986,134	2,391,899	(405,765)	(17.0)%	2,415,876
	19,417,305	16,835,804	2,581,501	15.3%	15,299,480
Accumulated depreciation	(8,418,966)	(9,434,022)	1,015,056	(10.8)%	(10,430,830)
Net depreciable assets	10,998,339	7,401,782	3,596,557	48.6%	4,868,650
Capital assets, net	\$ 11,712,361	\$ 10,757,421	\$ 954,940	8.9%	\$ 1,120,160

In FY2020, a portion of the EWSSP with total costs of \$4,401,425 was commissioned and placed into service compared with total costs of \$3,203,886 that was commissioned and placed into service in FY2019.

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

Management's Discussion and Analysis for the year ended September 30, 2019 is set forth in the report on the audit of KAJUR's financial statements dated September 11, 2020. That Discussion and Analysis explains the major factors impacting the FY2019 financial statements and may be obtained from the contact information below.

FUTURE OUTLOOK ON SUSTAINABILITY

KAJUR's outlook on sustainability remains bleak. To sustain its services, KAJUR continues to depend heavily on the US and RMI governments to help cover the over \$3 million gap that is needed yearly to maintain essential utility services to Ebeye and Gugeegue. 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 on page 5, 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 (groundbreaking ceremony has taken place and construction work to start once travel restrictions are lifted); and the installation phase of the 4 new Cummins genset from WB. These projects will provide a 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, 2020 and 2019

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 manage the daily financial operations and processes, ensuring timely and accurate recording of financial information.
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. Work with MEC and the Board to finalize a water tariff for Ebeye.
6. Develop and maintain a Business Plan for KAJUR
7. Manage developed strategies to improve on efficiencies and accuracies in all aspects of operations and outlook.

COVID-19

The Marshall Islands continues to be COVID-19 free; however, travel restrictions caused by the pandemic has delayed the arrival of the World Bank aid engines that have prolonged KAJUR's use of the Aggreko rental engines, which in turn has affected cash flow. Furthermore, 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 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 General Manager at PO Box 5819, Ebeye MH 96970.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Net Position
September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 107,979	\$ 130,708
Receivables:		
Utility	2,319,821	2,289,509
Affiliates	1,132,789	998,715
Due from related party	154,820	159,430
Due from grantor	47,679	47,679
Employees	6,296	7,667
Other	320,527	304,339
	<u>3,981,932</u>	<u>3,807,339</u>
Less allowance for doubtful accounts	<u>(3,623,515)</u>	<u>(3,607,948)</u>
Total receivables, net	<u>358,417</u>	<u>199,391</u>
Prepaid expenses	<u>1,750</u>	<u>15,903</u>
Inventories	<u>527,108</u>	<u>543,290</u>
Total current assets	995,254	889,292
Capital assets:		
Nondepreciable	714,022	3,355,639
Other capital assets, net of accumulated depreciation	<u>10,998,339</u>	<u>7,401,782</u>
	<u>\$ 12,707,615</u>	<u>\$ 11,646,713</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 211,146	\$ 256,433
Due to affiliates	6,436,399	5,561,216
Accrued liabilities	75,516	35,390
Unearned revenue	<u>325,234</u>	<u>204,094</u>
Total current liabilities	<u>7,048,295</u>	<u>6,057,133</u>
Contingencies		
Net position:		
Net investment in capital assets	11,712,361	10,757,421
Restricted	22,478	187,166
Unrestricted	<u>(6,075,519)</u>	<u>(5,355,007)</u>
Total net position	<u>5,659,320</u>	<u>5,589,580</u>
	<u>\$ 12,707,615</u>	<u>\$ 11,646,713</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, 2020 and 2019

	2020	2019
Operating revenues:		
Electric and service billings	\$ 3,700,965	\$ 3,012,280
Fuel sales	411,118	620,415
Water	191,687	304,567
Other	110,194	57,915
Total operating revenues	4,413,964	3,995,177
Less provision for doubtful accounts	(100,422)	(47,811)
Total net operating revenues	4,313,542	3,947,366
Operating expenses:		
Fuel and lubricants	3,480,673	4,011,662
Salaries, wages and benefits	1,513,497	1,471,658
Depreciation	762,851	726,782
Genset rental	673,478	335,689
Supplies and materials	224,110	435,399
Mid-corridor utilities	153,860	145,782
Inventory obsolescence	125,803	-
Travel and transportation	122,235	120,303
Operations and maintenance	109,332	63,023
Rental	58,283	26,268
Communications	34,967	22,449
Contractual services	32,929	99,114
Membership fees	18,475	3,264
Insurance	17,667	19,870
Entertainment	11,802	5,830
Board activities	6,782	13,940
Bank charges	6,610	5,333
Miscellaneous	27,532	44,897
Total operating expenses	7,380,886	7,551,263
Operating loss	(3,067,344)	(3,603,897)
Nonoperating revenues (expenses):		
Compact funding	1,481,720	1,935,642
Subsidy	66,980	-
Gain on sale of capital assets	13,012	-
Loss on write-off of capital assets	(184,436)	(347,436)
Total nonoperating revenues (expenses), net	1,377,276	1,588,206
Loss before capital contributions	(1,690,068)	(2,015,691)
Capital contributions	1,759,808	3,931,774
Change in net position	69,740	1,916,083
Net position at beginning of year	5,589,580	3,673,497
Net position at end of year	\$ 5,659,320	\$ 5,589,580

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 4,224,651	\$ 4,224,455
Cash payments to suppliers for goods and services	(4,248,833)	(4,797,187)
Cash payments to employees for services	(1,472,000)	(1,481,525)
Net cash used for operating activities	<u>(1,496,182)</u>	<u>(2,054,257)</u>
Cash flows from noncapital financing activities:		
Operating subsidies received from RepMar	<u>1,602,860</u>	<u>2,064,860</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	45,361	-
Acquisition and construction of capital assets	(174,768)	(179,105)
Net cash used for capital and related financing activities	<u>(129,407)</u>	<u>(179,105)</u>
Net change in cash	(22,729)	(168,502)
Cash at beginning of year	<u>130,708</u>	<u>299,210</u>
Cash at end of year	<u><u>\$ 107,979</u></u>	<u><u>\$ 130,708</u></u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (3,067,344)	\$ (3,603,897)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	762,851	726,782
Provision for doubtful accounts	100,422	47,811
Provision for inventory obsolescence	125,803	-
(Increase) decrease in assets:		
Receivables:		
Utility	(115,167)	102,521
Affiliate	(134,074)	160,614
Due from related party	4,610	-
Employees	1,371	1,334
Other	55,318	(33,857)
Prepaid expenses	14,153	45,628
Inventories	(42,641)	110,188
Increase (decrease) in liabilities:		
Accounts payable	(116,793)	(128,430)
Due to affiliates	875,183	528,250
Other current and accrued liabilities	<u>40,126</u>	<u>(11,201)</u>
Net cash used for operating activities	<u><u>\$ (1,496,182)</u></u>	<u><u>\$ (2,054,257)</u></u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Cash Flows, Continued
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Noncash capital and related financing activities:		
Ebeye Water Supply and Sanitation Project contributions:		
Capital assets	\$ 1,759,808	\$ 3,931,774
Capital contributions	<u>(1,759,808)</u>	<u>(3,931,774)</u>
	<u>\$ -</u>	<u>\$ -</u>
Write-off of capital assets:		
Capital assets	\$ (1,949,418)	\$ (2,071,026)
Accumulated depreciation	1,764,982	1,723,590
Loss on write-off of capital assets	<u>184,436</u>	<u>347,436</u>
	<u>\$ -</u>	<u>\$ -</u>
Cash Power Meter Subsidy:		
Inventory	\$ 66,980	\$ -
Subsidy	<u>(66,980)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>
Purchase of capital assets and offset of receivable from contractor:		
Capital assets	\$ 71,506	\$ -
Receivables	<u>(71,506)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements September 30, 2020 and 2019

(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, 2020 and 2019, KAJUR does not have nonexpendable restricted net position.
- 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.
- 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.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

As of September 30, 2020 and 2019, KAJUR has expendable restricted net position as follows:

	<u>2020</u>	<u>2019</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>\$ 22,478</u>	<u>\$ 187,166</u>

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.

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, 2020 and 2019, the carrying amount of cash was \$107,979 and \$130,708, respectively, and the corresponding bank balances were \$90,961 and \$228,397, respectively. Of the bank balances, \$24,462 and \$40,579, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits of \$66,499 and \$187,818, respectively, are maintained in financial institutions not subject to depository insurance. As of September 30, 2020 and 2019, bank deposits in the amount of \$24,462 and \$40,579, 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.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

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, 2020 and 2019. 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

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 represents Compact funding received from RepMar for Mid-Corridor Utility Support for which utility service to Mid-Corridor residents has yet to be provided. During the years ended September 30, 2020 and 2019, KAJUR received \$275,000 from RepMar relating to Mid-Corridor utility billings.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 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, 91, 92 and 93 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. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, Fiduciary Activities. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In August 2018, GASB issued Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. Except for paragraphs 11b, 13, and 14, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2021. The requirement in paragraphs 11b, 13, and 14 are effective for fiscal year September 30, 2022.

In March 2020, GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

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.

Estimates

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

(3) Inventories

Inventories as of September 30, 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
Materials and supplies	\$ 314,352	\$ 300,152
Fuel	319,625	240,881
Lubricants	<u>18,934</u>	<u>2,257</u>
	652,911	543,290
Less allowance for obsolescence	<u>(125,803)</u>	<u>-</u>
	\$ <u>527,108</u>	\$ <u>543,290</u>

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2020 and 2019

(4) Capital Assets

Capital asset activity for the years ended September 30, 2020 and 2019 are as follows:

	2020			
	October 1, 2019	Additions	Reductions	September 30, 2020
Plant and machinery	\$ 3,745,133	\$ -	\$ (699,250)	\$ 3,045,883
Distribution system	2,184,814	-	(59,238)	2,125,576
Water system	8,513,958	4,426,375	(680,621)	12,259,712
Other equipment	<u>2,391,899</u>	<u>149,819</u>	<u>(555,584)</u>	<u>1,986,134</u>
	16,835,804	4,576,194	(1,949,418)	19,417,305
Less accumulated depreciation	<u>(9,434,022)</u>	<u>(762,851)</u>	<u>1,777,907</u>	<u>(8,418,966)</u>
	7,401,782	3,813,343	(216,786)	10,998,339
Construction in progress	<u>3,355,639</u>	<u>1,759,808</u>	<u>(4,401,425)</u>	<u>714,022</u>
	<u>\$ 10,757,421</u>	<u>\$ 5,573,151</u>	<u>\$ (4,618,211)</u>	<u>\$ 11,712,361</u>
	2019			
	October 1, 2018	Additions	Reductions	September 30, 2019
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>

During the years ended September 30, 2020 and 2019, KAJUR management determined that certain capital assets of \$1,949,418 and \$2,071,026, respectively, no longer exist. Accordingly, these capital assets were written off resulting in a loss of \$184,436 and \$347,436, respectively.

During the years ended September 30, 2020 and 2019, a portion of the Ebeye Water Supply and Sanitation Project with total costs of \$4,401,425 and \$3,203,886, respectively, 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.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2020 and 2019

(5) Capital Contributions, Continued

During the years ended September 30, 2020 and 2019, KAJUR was the recipient of capital contributions associated with the Ebeye Water Supply and Sanitation Project under the following funding sources:

	<u>2020</u>	<u>2019</u>
Grant No. 0438-RMI (ADB)	\$ -	\$ 1,213,198
Grant No. 0439-RMI (Government of Australia)	36,979	975,080
RepMar	<u>1,722,829</u>	<u>1,743,496</u>
	<u>\$ 1,759,808</u>	<u>\$ 3,931,774</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 \$34,726 and \$37,222 to Plan participant accounts during the years ended September 30, 2020 and 2019, respectively, and total combined plan assets were \$1,778,648 and \$1,616,246 as of September 30, 2020 and 2019, respectively.

(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. In addition, KAJUR purchases fuel from MEC 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, 2020 and 2019 and the related receivable and payable balances as of September 30, 2020 and 2019, are as follows:

	<u>2020</u>		
	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 3,434,059	\$ 150,155	\$ 6,276,575
Marshall Islands National Telecommunications Authority	34,967	12,100	-
Marshall Islands Marine Resources Authority	58,283	276,108	-
RepMar	-	600,848	41,288
Others	162,744	93,578	118,536
	<u>\$ 3,690,053</u>	<u>\$ 1,132,789</u>	<u>\$ 6,436,399</u>
	<u>2019</u>		
	<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	142,462	62,854	98,651
	<u>\$ 4,136,255</u>	<u>\$ 998,715</u>	<u>\$ 5,561,216</u>

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2020 and 2019

(7) Related Party Transactions, continued

During the years ended September 30, 2020 and 2019, KAJUR was the recipient of operating subsidies from RepMar as follows:

	<u>2020</u>	<u>2019</u>
Compact of Free Association Kwajalein Impact Fund:		
Power Generation Support and Maintenance	\$ 1,327,860	\$ 1,327,860
Mid-Corridor Utilities Support	153,860	145,782
KAJUR Power Generation Rental	<u>-</u>	<u>462,000</u>
	<u>\$ 1,481,720</u>	<u>\$ 1,935,642</u>

During the year ended September 30, 2020, MEC transferred a 10,000 gallon fuel tank to KAJUR at cost in the amount of \$68,929. As of September 30, 2020, KAJUR has yet to remit payment to MEC associated with this transfer. During the year ended September 30, 2020, KAJUR transferred an excavator and certain transformers and copper cable to MEC at cost in the amount of \$118,570. As of September 30, 2020, MEC has yet to remit payment to KAJUR associated with this transfer.

During the year ended September 30, 2020, MEC was the subrecipient of RepMar grant funding from the 11th European Development Fund (EDF11) under the ACP-EU Partnership Agreement to support reform of the energy sector in RMI. MEC utilized a portion of this grant to provide a subsidy of \$66,980 to assist KAJUR in the purchase of cash power meters.

During the year ended September 30, 2019, KAJUR generated fuel sales of \$49,134 from a local company in which a Board member has an ownership interest. As of September 30, 2019, receivables from this related party total \$159,430. As of September 30, 2020, the individual is no longer a Board member and the receivable from the local company amounts to \$154,820.

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, 2020 and 2019, the unexpended amount of \$22,478 is restricted within net position.

In 2018, RepMar entered into a financing agreement with the International Development Association (IDA), a member of the World Bank Group. Under this financing agreement, the IDA would provide a SDR 24,300,000 grant to assist in increasing the share of renewable energy generation, enhance the reliability of electricity supply, and improve energy efficiency in the Marshall Islands. MEC, as the designated Project Implementation Unit, subsequently entered into a \$2,596,484 contract with a vendor for the purchase of two gensets and two diesel generator engines on Ebeye island to be operated by KAJUR. As of September 30, 2020, grant proceeds of \$2,085,788 had been drawn down under this contract. (See Note 11)

(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.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements
September 30, 2020 and 2019

(9) Contingencies

KAJUR incurred losses from operations of \$3,067,344 and \$3,603,897 during the years ended September 30, 2020 and 2019, 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) COVID-19 Pandemic

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. On October 28, 2020, one confirmed case was identified in the Marshall Islands that was subsequently isolated and contained. On November 17, 2020, an additional three cases were identified and which were isolated and contained. As of April 5, 2022, no community transmission has been identified. KAJUR has determined that should the pandemic reach the Marshall Islands, it may negatively impact KAJUR's business, results of operations and net 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 net position, the related financial impact cannot be reasonably estimated at this time.

(11) Subsequent Events

In October 2020, two engines funded by the IDA grant were commissioned and brought online. In April 2021, two genset units funded by the IDA were also commissioned and brought online.

In December 2020, additional funding of \$3,000,000 was provided by ADB and Government of Australia for the financing of the Ebeye Water Supply and Sanitation Project.

In March 2021, KAJUR entered into a \$1,700,000 services agreement with a vendor for training, operation and maintenance of a water plant.

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, 2020, 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 April 5, 2022.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 2020-003 through 2020-006 and 2020-008 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 items 2020-007 and 2020-009 to be significant deficiencies.

Compliance and Other Matters

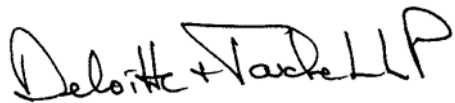
As part of obtaining reasonable assurance about whether KAJUR's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2020-001.

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 + Tard LLP". The signature is stylized, with the "D" and "T" being particularly prominent.

April 5, 2022

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, 2020. 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 2020-001 for Procurement and Suspension and Debarment and 2020-002 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, 2020.

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.

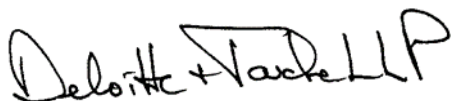
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material 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 2020-001 and 2020-002 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, 2020 and have issued our report thereon dated April 5, 2022, 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.



April 5, 2022

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

<u>Program Title</u>	<u>Document #</u>	<u>Note</u>	<u>Expenditures FY20</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	D20AF00018-00030	(1)	\$ 1,327,860
Mid-Corridor Utilities Support	D20AF00018-00020	(2)	153,860
KAJUR Power Generation	D19AF00038-00010	(3)	<u>164,688</u>
			<u>\$ 1,646,408</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 expenses of \$3,480,673.
- (2) Included within Mid-corridor utilities expense of \$153,860.
- (3) Included within genset rental expense of \$673,478.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs
Year Ended September 30, 2020

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 the sole major federal program:

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

Type of auditors' report issued on compliance for the sole major federal program: 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>
2020-001	RMI Procurement Code
2020-003	Accounts Receivable
2020-004	Materials and Supplies Inventory
2020-005	Capital Assets
2020-006	Financial Reporting
2020-007	Utility Revenues
2020-008	Fuel Inventory
2020-009	Revenue Statistics

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2020-001	15.875	Procurement and Suspension and Debarment	\$ 164,688
2020-002	15.875	Reporting	\$ -

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-001
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: \$164,688

Criteria:

RepMar's 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:

Procurement was not supported by competitive sealed bidding or any other appropriate methodology and appears to have been sole sourced. Documentary evidence of the justification and rationale for the sole source procurement method applied was not available for examination for the following:

1. Federally Funded Procurement Exceptions:

- a. Contractual services of \$164,688 for generator rental funded by CFDA Program 15.875 Kwajalein Impact Fund.

2. Non-Federally Funded Procurement Exceptions:

- b. The following items pertaining to purchase of materials and supplies, gasoline, etc.:

<u>Document #</u>	<u>GL Account</u>	<u>Transaction Description</u>	<u>Amount</u>
20379	Materials & Supplies	Lumber Treated 4 x 4 x 20	\$ 7,725
2012115	Materials & Supplies	Battery Heavy Duty 12V	570
20-JV0007	Materials & Supplies	Cash Power Meters	32,576
1919944	Materials & Supplies	Plywood 5/8	306
34540	Materials & Supplies	Pump for RO Units	8,210
34437	Diesel Fuel Expense	Fuel from Kwajalein	14,900
1211658	Vehicle Expense	Oil Filter	456
34669	Gasoline	Gasoline	3,312
34496	Vehicle Expense	Wheel Bearing Assembly	1,936
			<u>\$ 69,991</u>

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-001, Continued
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: \$164,688

Condition, Continued:

2. Non-Federally Funded Procurement Exceptions, Continued:

c. The following items pertaining to the purchase of used equipment:

<u>Asset ID</u>	<u>Description</u>	<u>Acquisition Date</u>	<u>Amount</u>
00453	1.7T Hyundai Excavator	04/07/2020	\$ 19,380
00455	Godwin Dewatering Pump	04/07/2020	<u>16,770</u>
			\$ <u>36,150</u>

d. The following item pertaining to the purchase of a 2014 used vehicle from a former Board member:

<u>Document #</u>	<u>Description</u>	<u>Amount</u>
34803/34858	2014 Toyota 4Runner	\$ 24,500

e. Rental of apartment units in an aggregate amount of \$22,111.

Cause:

KAJUR lacks internal control policies and procedures supporting compliance with RepMar's Procurement Code.

Effect:

KAJUR is noncompliant with applicable procurement requirements and, accordingly, questioned costs of \$164,688 result.

Identification as a Repeat Finding: Finding 2019-001, 2018-03, 2017-003, 2016-003, 2015-003 and 2014-001.

Recommendation:

KAJUR management should strengthen monitoring controls requiring compliance with applicable procurement requirements and require that documentation be adequate to indicate the history of procurement, including the rationale for contractor or vendor selection.

Auditee Response and Corrective Action Plan:

KAJUR management agrees with the finding and provides details in its Corrective Action Plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.:	2020-002
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 requires KAJUR to submit various reports as to the status of grant funds.

Condition:

For the year ended September 30, 2020, required reports were not timely submitted. Specifically, KAJUR reported the status of grant funds on August 20, 2021, which is 11 months after the reporting period. In addition, no report on the status of grant funds was submitted for \$164,688 expended for Power Generation.

Cause:

KAJUR lacks internal control policies and procedures supporting compliance with sub-recipient agreement reporting requirements.

Effect:

Potential noncompliance with sub-recipient agreement reporting requirements results from this condition.

Identification as a Repeat Finding: Finding 2019-002

Recommendation:

KAJUR management should strengthen monitoring controls requiring compliance with reporting requirements stipulated in the sub-recipient agreement.

Auditee Response and Corrective Action Plan:

KAJUR management agrees with the finding and provides details in its Corrective Action Plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-003
Area: Accounts Receivable

Criteria:

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

Condition:

Examination of accounts receivable indicated the following:

- a. As of September 30, 2020, electric trade receivables aggregated \$2,319,821. Of this amount, \$1,999,214 has been long outstanding for years without adequate collection. Nine customer accounts comprise 69% of this total.
- b. Certain customers continue to receive utility services without resolution of long outstanding balances.
- c. Of the outstanding balances from diesel fuel sales as of September 30, 2020, which amount to \$257,219, an allowance for doubtful debts of \$229,705 was recognized. Of that amount, \$154,820 is due from a local company owned by a former Board member.
- d. During the year ended September 30, 2020, 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:

KAJUR lacks 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:

A potential limitation on KAJUR's cash flows and potential losses due to collectability results from this condition.

Identification as a Repeat Finding: Finding 2019-003, 2018-01, 2017-001, 2016-001 and 2015-001.

Recommendation:

KAJUR management should establish internal control policies and procedures over the monitoring and collection of long outstanding receivables in order to minimize potential losses from uncollected balances.

Auditee Response and Corrective Action Plan:

KAJUR management agrees with the finding and provides details in its Corrective Action Plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-004
Area: Materials and Supplies

Criteria:

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

Condition:

Examination of materials and supplies indicated the following:

- a. A \$25,902 year-end net adjustment to materials and supplies inventory was the result of untimely reconciliation of actual inventory on hand. We noted the following deficiencies:
 1. Materials and supplies were not supported by signed issuance tickets to evidence authorized issuances and acknowledge inventory receipts.
 2. Items purchased and received during the year were not properly supported by receiving reports.
 3. Approved work orders are not always prepared prior to inventory requests.
- b. In addition, we noted other deficiencies concerning materials and supplies inventory as follows:
 1. A \$30,137 overstatement of materials and supplies inventories resulted due to duplicate untimely recording of materials issuance tickets.
 2. Certain count variances were noted in electric inventory quantities as a result of year-end count procedures.
 3. Two items tested for water materials and supplies inventory in the aggregate amount of \$61,913 pertained to an old Reverse Osmosis (RO) unit. These items were not compatible with the new RO unit. Subsequent reassessment by KAJUR management resulted in additional old RO unit inventories being identified in the aggregate amount of \$63,890. Such resulted in a proposed audit adjustment of \$125,803 to recognize a provision for inventory obsolescence.

Cause:

KAJUR lacks adequate internal control policies and procedures 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.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-004, Continued
Area: Materials and Supplies

Identification as a Repeat Finding: Finding 2019-004, 2018-02, 2017-002, 2016-002.

Recommendation:

KAJUR management should establish internal control policies and procedures requiring the 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:

KAJUR management agrees with the finding and provides details in its Corrective Action Plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-005
Area: Capital Assets

Criteria:

The 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:

Examination of capital assets indicated the following:

- a. The capital asset register is not timely reconciled with the general ledger. Accumulated depreciation per the capital asset register was overstated by \$33,972 when compared with the general ledger. Further, the capital asset register does not include the composition of beginning construction work in progress of \$3,355,639.
- b. KAJUR has not implemented adequate internal control policies and procedures over monitoring the use of Company vehicles and related gas usage.
- c. Of 4 capital asset additions tested, 2 were not supported by receiving reports.
- d. KAJUR lacks adequate internal control policies and procedures supporting the periodic inventorying of capital assets. Of 53 capital asset items tested for verification:
 - 31 items were identified as not useable, damaged, cannot be found and or replaced. Of the 31 identified, 3 have a remaining net book value of \$17,659. as of September 30, 2020.
 - Old Reverse Osmosis (RO) equipment with a net book value of \$184,436, which was replaced by RO equipment from the Ebeye Water Supply and Sanitation Project (EWSSP), was included in the capital asset register. An audit adjustment was proposed to reduce capital assets resulting in the recognition of a loss on capital asset retirement.
 - 2 items were identified as repairable with a net book value of \$2,275.
 - 1 item was unlocated with a net book value of \$12,233.
- e. KAJUR does not monitor the recording of construction in progress related to EWSSP.

Cause:

KAJUR lacks established internal controls policies and procedures over monitoring, reconciliation, and recording capital asset transactions.

Effect:

A possible misstatement of capital assets results from this condition.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-005, Continued
Area: Capital Assets

Identification as a Repeat Finding: Finding 2019-005.

Recommendation:

KAJUR management should establish internal control policies and procedures requiring the timely update and reconciliation of the capital asset register. In addition, management 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 management perform a periodic inventory of capital assets to identify if assets should be considered for disposal or retirement.

Auditee Response and Corrective Action Plan:

KAJUR management agrees with the finding and provides details in its Corrective Action Plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-006
Area: 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, 2020 financial information until July 30, 2021. Furthermore, various accounting records did not appear to have been timely processed and updated.

Cause:

KAJUR lacks internal control policies and procedures over timely year-end closing processes and over timely reviews and reconciliations of significant general ledger accounts. KAJUR's Accounting Office employees responsible for maintaining and updating the trial balance and related subsidiary ledgers do not appear to understand timely general ledger and subsidiary ledger reconciliation processes.

Effect:

An inability to meet established reporting deadlines. Incorrect trial balance and subsidiary ledgers can delay an audit beyond the reporting deadline and cause unnecessary audit costs. Various material post-closing and proposed audit adjustments were required to correct the financial records.

Identification as a Repeat Finding: Finding 2019-006.

Recommendation:

KAJUR management should establish internal control policies and procedures to facilitate timely and accurate preparation of financial records. In addition, management should examine personnel staffing requirements and qualifications associated with KAJUR's Accounting Office. KAJUR employees responsible for maintaining and updating financial records should have adequate training to facilitate timely general ledger and subsidiary ledger reconciliation processes.

Auditee Response and Corrective Action Plan:

KAJUR management agrees with the finding and provides details in its Corrective Action Plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-007
Area: Utility Revenues

Criteria:

Sale of electricity should be recorded as billed to 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 \$153,408 were untimely recorded, \$48,678 of which remained unrecorded at year end. Such was corrected by management during the audit process.

Cause:

KAJUR lacks established internal control policies and procedures over the timely recording of revenues from customers that are utilizing temporary electric postpaid meters.

Effect:

A possible misstatement of revenues and receivables results from this condition.

Identification as a Repeat Finding: Finding 2019-007.

Recommendation:

KAJUR management should establish internal control policies and procedures over the timely recording of revenues from customers that are in temporary electric postpaid meters.

Auditee Response and Corrective Action Plan:

KAJUR management agrees with the finding and provides details in its Corrective Action Plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-008
Area: 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 overstated by \$87,354 as of year-end due to duplicate fuel invoice recorded.
- b. A variance in fuel quantity of 7,338 gallons was noted as of year-end and no justification was provided as to usage.
- c. Bunker delivery receipts (BDRs) do not reflect actual fuel delivery dates.
- d. Variances amounting to \$44,622 for MEC fuel purchases were not reconciled and recorded with the related party.

Cause:

KAJUR lacks established internal control policies and procedures over fuel inventory movements.

Effect:

A possible misstatement of inventories, expenses or revenues results from this condition.

Identification as a Repeat Finding: Finding 2019-008.

Recommendation:

KAJUR should establish internal control policies and 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:

KAJUR management agrees with the finding and provides details in its Corrective Action Plan.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-009
Area: Revenue Statistics

Criteria:

Internal control procedures should be in place in order to monitor utility revenues.

Condition:

KAJUR does not maintain records of the following throughout the year:

- a. Electric power generated, transmitted and billed.
- b. Water gallons produced, delivered and billed.

Cause:

KAJUR lacks established internal control policies and procedures over the monitoring of utility revenues.

Effect:

Unmonitored line losses and undetermined water quantity variances that may lead to possible misstatement of receivables, expenses or revenues results from this condition.

Recommendation:

KAJUR management should establish internal control policies and procedures over the monitoring and maintenance of records of electric power generated or water gallons produced, transmitted (or delivered) and billed.

Auditee Response and Corrective Action Plan:

KAJUR management agrees with the finding and provides details in its Corrective Action Plan.

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
Year Ended September 30, 2020

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2020-001	<p><u>Procurement and Suspension and Debarment:</u> KAJUR agrees to the finding and further noted it being a repeated finding since 2014.</p> <p>KAJUR will strengthen purchasing policies and procedures by utilizing the Tenderlink application for transparent and compliance with the RepMar Procurement Code.</p>	September 30, 2022	Joseph T. Pedro General Manager
2020-002	<p><u>Reporting:</u> KAJUR agrees to the finding and further noted suggestion and recommendation stated in the audit report.</p> <p>KAJUR continues to face challenges as was reported in its FY19 audit report due to power generation issues and challenges of hiring an off island financial person to help KAJUR with its financial responsibilities. MEC continues to lend its financial support and guidance.</p> <p>KAJUR acknowledge this as repeated finding and stives to put in place internal policy and procedures to ensure its financial reports are submitted as required accordingly. KAJUR will continue with its effort to bring in a financial expert to help with the financial functions.</p>	September 30, 2022	Joseph T. Pedro General Manager
2020-003	<p><u>Accounts Receivable:</u> KAJUR agrees to the finding and further noted it being a repeated finding since 2015. As noted in our 2020 Audit, KAJUR continues to struggle in its ability to collect long outstanding (AR) balances.</p> <p>MEC continue to provide assistance to KAJUR with its finance obligations while KAJUR still seeking to hire a financial staff accountant to assist with implementing internal policies and control measures to ensure financial reports and account receivables.</p>	September 30, 2022	Joseph T. Pedro General Manager
2020-004	<p><u>Materials and Supplies:</u> KAJUR agrees with the recommendations to establish internal control policies and procedures requiring periodic reconciliations of materials and supplies inventory, utilization of inventory receiving and issuance forms, and timely monitoring of prepayment accounts.</p> <p>In order to address this issue, KAJUR will establish standard procedures to utilize the full functionality of KAJUR's Inventory Software using its audit trail.</p>	September 30, 2022	Joseph T. Pedro General Manager

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
Year Ended September 30, 2020

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2020-005	Capital Assets: KAJUR agrees with this finding and makes effort to streamline its procedures in managing its assets. KAJUR will also write up procedures and internal control policies to better track fixed assets and enter fixed assets into the accounting software such as MIP and Microix.	September 30, 2022	Joseph T. Pedro General Manager
2020-006	Financial Reporting: KAJUR agrees with this finding as was noted in its 2019 audit. While KAJUR's been receiving support and assistance from MEC, KAJUR continues to make effort to find a key finance person to ensure accurate and timely financial report, and also ensuring policies and procedure for financial recording are consistently followed. In addition, the key finance person to increase internal and external training to strengthen existing HR capabilities.	September 30, 2022	Joseph T. Pedro General Manager
2020-007	Utility Revenues: KAJUR agrees with this finding and has made arrangements to replace all postpaid meters with cash power meter to remedy the issue with postpaid meter collections.	Ongoing	Joseph T. Pedro General Manager
2020-008	Fuel Inventory: KAJUR agrees to this finding 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 fuel movements. These will be achieved by utilizing an inventory system that is currently in use for purchasing fuel using purchasing order, receiving purchase orders and tracking fuel movements in the system. The system will entail request and audit trail of transactions thus eliminating manual inputs that leads to redundancy.	Ongoing	Joseph T. Pedro General Manager
2020-009	Revenue Statistics: KAJUR agrees to this finding and hopes to resolve this finding with a computerized monitoring system funded under the EWSSP-ENUPPS (Ebeye Water Sewer and Sanitation Project – Electrical Network Upgrade Power Plant Monitoring System). Project has experienced delay due to Covid-19 travel restrictions.	Ongoing	Joseph T. Pedro General Manager



**Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2020**

Questioned Costs:

The prior year report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved as of September 30, 2020:

Questioned costs as previously reported	\$ 297,312
Questioned costs of fiscal year 2020	<u>164,688</u>
Unresolved questioned costs as of September 30, 2020	\$ <u>462,000</u>

Summary Schedule of Prior Audit Findings

Finding Number	CFDA	Status and Corrective Action Plan
2019-001	15.875	Not corrected. Refer to the planned corrective actions in the Corrective Action Plan for Finding 2020-001.
2019-002	15.875	Not corrected. Refer to the planned corrective actions in the Corrective Action Plan for Finding 2020-002.

April 5, 2022

Mr. Joseph Pedro
General Manager
Kwajalein Atoll Joint Utilities Resources, Inc.

Dear Mr. Pedro:

In planning and performing our audit of the financial statements of Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2020, on which we have issued our report dated April 5, 2022, 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, we considered KAJUR's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KAJUR's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KAJUR's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to KAJUR's internal control over financial reporting and other matters as of September 30, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated April 5, 2022, 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 definition of a deficiency is also set forth in the attached Appendix I.

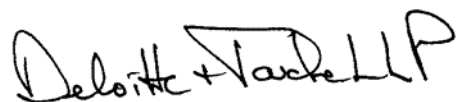
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of KAJUR management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of KAJUR for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving KAJUR's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

(1) Other Accounts Receivable

Comment # 1: As of September 30, 2020, the following balances within Account # 1340 - Other Receivables were not supported by account reconciliations:

Admin	\$ 30,202
Water	19,023
KADA	<u>12,686</u>
	<u>\$ 61,911</u>

As these amounts were not considered material to the financial statements, no audit adjustments were proposed. We recommend management establish internal control policies and procedures requiring receivable balances be supported by underlying account reconciliations.

Comment # 2: Transactions amounting to \$4,100 pertaining to sale of fuel was not reversed and \$1,050 was incorrectly recorded as a receivable. We recommend management properly reconcile customer receivables.

(2) Accounts Payable

As of September 30, 2020, a \$30,548 variance existed between the general ledger and the accounts payable subsidiary ledger. As this amount was not considered material to the financial statements, no audit adjustment was proposed. We recommend management establish internal control policies and procedures requiring timely reconciliation of general ledger balances.

(3) Revenues

Comment # 1: Of 34 cash power sales receipts and daily collection reports tested, one was not timely recorded and deposited. We recommend management establish internal control policies and procedures requiring timely recording and depositing of cash power sales.

Comment # 2: Of 24 postpaid electric sales tested, 3 customer accounts were inactive; however, the customer status was tagged as "ACTB" active and billable. We recommend management establish internal control policies and procedures over the maintenance and review of customer status.

Comment # 3: Of 9 fuel sales tested, one customer was provided the special fuel rate of \$4.10/gallon even though the customer was not on the designated special rates list. Special fuel rates were negotiated in the prior year to lessen the impact of load shedding for commercial customers who utilized their own generator units. These special rates continue to be utilized even though load shedding is no longer required. We recommend management consider reassessing the need for special fuel rates.

(4) Nonpayroll Expenses

During the year ended September 30, 2020, one inventory issuance of \$2,334 was expensed seven months after issuance. We recommend management establish internal control policies and procedures requiring inventory issuances be timely recorded.

(5) Payroll

Comment # 1: During the year ended September 30, 2020, overtime charges of \$130,166 were incurred, which represent 12% of regular salaries. We recommend management consider and assess staffing adequacy to determine if additional employees are necessary to reduce overtime charges.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(5) Payroll, Continued

Comment # 2: Of 39 payroll expenses tested, the following exceptions were noted:

- a) 2 instances where annual leave paid for Employee #s 1002 and 4020 (Check #s 19189 and 34989) was not supported by an approved leave form.
- b) 2 instances where Personnel Action Forms for Employee #s 3314 and 4219 were not evidenced as approved.
- c) 4 instances where wages paid (Checks # 19151, 19993, 35554 and 20378) were not supported by approved timesheets.

We recommend all employment changes be supported by approved personnel action forms. In addition, we recommend time charges be supported by documented and approved timesheets and sick/leave forms.

Comment # 3: KAJUR paid salaries on behalf of a third party for which a \$47,693 receivable was recognized as of September 30, 2020. No history of collection was noted from this third party. We recommend management establish internal control policies and procedures requiring timely collection of receivables.

(6) Review of Documents

Comment # 1: During the year ended September 30, 2020, we noted bank reconciliations and nine journal vouchers were not evidenced by independent supervisory review. We recommend management establish internal control policies and procedures requiring that bank reconciliations and journal vouchers be subjected to independent supervisory review and approval.

Comment # 2: During the year ended September 30, 2020, we noted certain cash collection reports without evidence of a review process. We recommend management establish internal control policies and procedures requiring completeness of review over collection reports.

SECTION II - OTHER MATTERS

We identified, and have included below, other matters involving KAJUR's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

(1) Local Noncompliance - Social Security Act of 1990 and Social Security Health Fund Act of 1991

Sections 131 and 215 of the Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, each employer shall submit to the Social Security Administration a report of wages and salaries paid by the employer, and the contributions due from the employer, under Sections 129 and 130, and 213, and 214, respectively, and pay into the Fund the contributions due. The employer quarterly tax return for the quarter ended September 30, 2020 was filed and paid on 10/20/2020, which is after the required filing date. We recommend management establish internal control policies and procedures to monitor compliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

(2) Local Noncompliance - Income Tax Act of 1989

Section 105 of the Income Tax Act of 1989 states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter. All of the employer withholding tax returns for the year ended September 30, 2020 were filed and/or paid after the required filing dates. We recommend management establish internal control policies and procedures to monitor compliance with the Income Tax Act of 1989.

SECTION II - OTHER MATTERS

(3) Board Sitting Fees

During the year ended September 30, 2020, KAJUR paid sitting fees of \$3,600 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by KAJUR. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

(4) State-Owned Enterprise (SOE) Act of 2015

Section 623 of the SOE Act of 2015 requires directors to hold meetings at least once every two months, and at such other times as they consider necessary for the efficient conduct of the SOE's business. We noted above that during the periods January 2020 to May 2020 and July 2020 to September 2020, no board meetings occurred. We recommend management consider frequency of meetings as required under the SOE Act of 2015.

SECTION III - DEFINITION

The definition of a deficiency is as follows:

A deficiency 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

KAJUR's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.