

*Financial Statement, Supplementary Information, and  
Report on Internal Control and Compliance*

**Republic of the Marshall Islands**

**Ebeye Water Supply and Sanitation Project**

(Jointly Financed by the Asian Development Bank's Special  
Fund (Grant Numbers 0438 RMI (SF) and 0749 RMI (SF)) and  
the Government of Australia (Grant Number 0439 RMI (EF)))

*Year ended September 30, 2021  
with Report of Independent Auditors*



**Republic of the Marshall Islands**  
**Ebeye Water Supply and Sanitation Project**  
(Jointly Financed by the Asian Development Bank’s Special Fund  
(Grant Numbers 0438 RMI (SF) and 0749 RMI (SF)) and the  
Government of Australia (Grant Number 0439 RMI (EF)))

Year ended September 30, 2021

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## Report of Independent Auditors

Honorable Minister David Paul  
Ministry of Finance, Banking and Postal Services  
Republic of the Marshall Islands

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

We have audited the accompanying financial statement of the Republic of the Marshall Islands (RMI) Ebeye Water Supply and Sanitation Project (the Project) jointly financed by the Asian Development Bank's Special Fund (Grant Numbers 0438 RMI (SF) and 0749 RMI (SF)) and the Government of Australia (Grant Number 0439 RMI (EF)), which comprises the statement of revenues, expenditures, and changes in fund balance for the year ended September 30, 2021, and the related notes to the financial statement.

### ***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with 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.

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the results of operations of the Project for the year ended September 30, 2021, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

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

### ***Other Matters***

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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the financial statement. Such missing information, although not part of the financial statement, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statement in an appropriate operational, economic, or historical context. Our opinion on the financial statement is not affected by this missing information.

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

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The other supplementary information on pages 9 and 10 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of the RMI Ministry of Finance, Banking and Postal Services' management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the financial statement as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2025, on our consideration of the Project's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Project's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing* in considering the Project's internal control over financial reporting and compliance.

*Ernst + Young*

March 24, 2025

**Republic of the Marshall Islands**  
**Ebeye Water Supply and Sanitation Project**  
**(Jointly Financed by the Asian Development Bank's Special Fund**  
**(Grant Numbers 0438 RMI (SF) and 0749 RMI (SF)) and**  
**the Government of Australia (Grant Number 0439 RMI (EF)))**

Statement of Revenues, Expenditures  
and Changes in Fund Balance

Year ended September 30, 2021

Revenues:	
ADB grant drawdowns	\$ 492,956
RMI contributions	<u>9,428</u>
Total revenues	<u>502,384</u>
Expenditures:	
Investment costs:	
Equipment	<u>502,384</u>
Total expenditures	<u>502,384</u>
Net change in fund balance	---
Fund balance at beginning of the year	<u>---</u>
Fund balance at end of the year	<u><u>\$ ---</u></u>

*See accompanying notes.*

**Republic of the Marshall Islands**  
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**Notes to Financial Statement**

Year ended September 30, 2021

**1. Organization**

On September 28, 2015, the Asian Development Bank (ADB) approved to partially fund the Republic of the Marshall Islands (RMI) Ebeye Water Supply and Sanitation Project (the Project), estimated to cost \$22,020,000. The objective of the Project was to improve access to safe water and to improve sanitation on Ebeye, Kwajalein Atoll in the RMI.

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

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

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

On December 11, 2020, the ADB executed Grant Number 0749 RMI (SF) with the RMI Government in the amount of \$3,000,000 for the purpose of financing additional activities under the Project.

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

The accompanying financial statement is prepared for the year ended September 30, 2021 and relates solely to those accounting records maintained by the RMI Ministry of Finance, Banking and Postal Services associated with the Project and does not incorporate any accounts related to any other departments or agencies of the RMI Ministry of Finance, Banking and Postal Services.

**Republic of the Marshall Islands**  
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Notes to Financial Statement, continued

**2. Summary of Significant Accounting Principles**

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

**Measurement Focus and Basis of Accounting**

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

**Basis of Presentation**

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

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

**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 liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.



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Notes to Financial Statement, continued

**3. Project Description**

The Project's key outputs are:

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

Project expenditures are funded in accordance with the following allocations:

<u>Category</u>	<u>Grant 0438</u>	<u>Grant 0749</u>	<u>Grant 0439</u>	<u>RMI</u>	<u>Total</u>
Civil Works	28.9%	1.9%	29.4%	39.8%	100%
Equipment and Materials	23.7%	21.2%	12.1%	43%	100%
Land Acquisition	---	---	---	100%	100%
Consulting Services	26.7%	15.6%	26.4%	31.3%	100%

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

The expected closing date of the Project is December 31, 2025.

**Republic of the Marshall Islands**  
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Notes to Financial Statement, continued

**4. RMI Government Contributions**

Under the provisions of the grant agreements, the RMI Government is required to provide counterpart funding for the Project aggregating \$10,020,000, inclusive of \$1,860,000 in exemption of taxes and duties. The RMI's cash contribution is financed by certain U.S. Department of the Interior federal grants, awarded and made available to the RMI as the Project progresses. For the year ended September 30, 2021, the RMI made available \$9,428 in counterpart funding.

**4. Commitments**

The ADB has made grant proceeds of \$8,000,000 available to the RMI Government for the purpose of exclusively financing Project expenditures in accordance with grant agreement provisions. As of September 30, 2021, remaining commitments associated with unused grant proceeds amount to \$2,550,250 under Grant Number 0749 RMI (SF).

## Supplementary Information

**Republic of the Marshall Islands**  
**Ebeye Water Supply and Sanitation Project**  
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Combining Statement of Revenues, Expenditures  
and Changes in Fund Balance

Year ended September 30, 2021

	<u>ADB 0438</u>	<u>ADB 0749</u>	<u>RMI</u>	<u>Total</u>
Revenues:				
ADB grant drawdowns	\$ 43,206	\$ 449,750	\$ ---	\$ 492,956
RMI contributions	<u>---</u>	<u>---</u>	<u>9,428</u>	<u>9,428</u>
Total revenues	<u>43,206</u>	<u>449,750</u>	<u>9,428</u>	<u>502,384</u>
Expenditures:				
Investment costs:				
Equipment	<u>43,206</u>	<u>449,750</u>	<u>9,428</u>	<u>502,384</u>
Total expenditures	<u>43,206</u>	<u>449,750</u>	<u>9,428</u>	<u>502,384</u>
Net change in fund balance	---	---	---	---
Fund balance at beginning of the year	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
Fund balance at end of the year	<u><u>\$ ---</u></u>	<u><u>\$ ---</u></u>	<u><u>\$ ---</u></u>	<u><u>\$ ---</u></u>

**Republic of the Marshall Islands**  
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Schedule of Budgeted vs. Actual Expenditures

Period from inception (October 13, 2015) through September 30, 2021

	Budget					Actual Expenditures					Variance				
	ADB Grant 0438	ADB Grant 0749	GOA Grant 0439	RMI	Total	ADB Grant 0438	ADB Grant 0749	GOA Grant 0439	RMI	Cumulative from October 13, 2015 to September 30, 2021	ADB Grant 0438	ADB Grant 0749	GOA Grant 0439	RMI	Total
Expenditures:															
Investment costs:															
Water supply and sewer network rehabilitation and expansion program	\$ 2,036,301	\$ ---	\$ 1,659,740	\$ 4,523,809	\$ 8,219,850	\$ 2,036,301	\$ ---	\$ 1,659,740	\$ 4,623,292	\$ 8,319,333	\$ ---	\$ ---	\$ ---	\$ ( 99,483 )	\$ ( 99,483 )
Salt water reverse osmosis plant	1,730,241	3,000,000	1,153,493	2,144,838	8,028,572	1,734,992	449,750	1,153,493	2,027,317	5,365,552	( 4,751 )	2,550,250	---	117,521	2,663,020
Project implementation consultants	1,069,044	---	855,236	998,662	2,922,942	1,069,044	---	855,236	1,120,780	3,045,060	---	---	---	( 122,118 )	( 122,118 )
Electrical distribution system upgrade program	---	---	---	1,545,000	1,545,000	---	---	---	---	---	---	---	---	1,545,000	1,545,000
Financial management advisor	140,400	---	112,320	154,006	406,726	135,649	---	108,520	104,219	348,388	4,751	---	3,800	49,787	58,338
School sanitation upgrade program	---	---	---	201,829	201,829	---	---	---	201,829	201,829	---	---	---	---	---
Grant management fee	---	---	200,000	---	200,000	---	---	---	---	---	---	---	200,000	---	200,000
Independent technical advisors	---	---	---	167,522	167,522	---	---	---	167,522	167,522	---	---	---	---	---
Fixtures program	---	---	---	150,000	150,000	---	---	---	57,197	57,197	---	---	---	92,803	92,803
Water and sewer operations specialist	24,014	---	19,211	18,856	62,081	24,014	---	19,211	18,856	62,081	---	---	---	---	---
Audit fees	---	---	---	28,000	28,000	---	---	---	19,500	19,500	---	---	---	8,500	8,500
Miscellaneous	---	---	---	87,478	87,478	---	---	---	---	---	---	---	---	87,478	87,478
Total expenditures	<u>\$ 5,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 4,000,000</u>	<u>\$ 10,020,000</u>	<u>\$ 22,020,000</u>	<u>\$ 5,000,000</u>	<u>\$ 449,750</u>	<u>\$ 3,796,200</u>	<u>\$ 8,340,512</u>	<u>\$ 17,586,462</u>	<u>\$ ---</u>	<u>\$ 2,550,250</u>	<u>\$ 203,800</u>	<u>\$ 1,679,488</u>	<u>\$ 4,433,538</u>

## Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable Minister David Paul  
Ministry of Finance, Banking and Postal Services  
Republic of the Marshall Islands

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Republic of the Marshall Islands (RMI) Ebeye Water Supply and Sanitation Project (the Project) jointly financed by the Asian Development Bank's Special Fund (Grant Numbers 0438 RMI (SF) and 0749 RMI (SF)) and the Government of Australia (Grant Number 0439 RMI (EF)), which comprises the statement of revenues, expenditures, and changes in fund balance for the year ended September 30, 2021, and the related notes to the financial statement, and have issued our report thereon dated March 24, 2025.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Project's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2021-01 that we consider to be a material weakness.

## **Compliance and Other Matters**

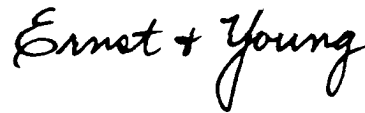
As part of obtaining reasonable assurance about whether the Project's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **The Project's Response to Findings**

The Project's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Project's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

March 24, 2025

**Republic of the Marshall Islands**  
**Ebeye Water Supply and Sanitation Project**  
(Jointly Financed by the Asian Development Bank's Special Fund  
(Grant Numbers 0438 RMI (SF) and 0749 RMI (SF)) and the  
Government of Australia (Grant Number 0439 RMI (EF)))

**Schedule of Findings and Responses**

Year ended September 30, 2021

Finding 2021-01

Modified Accrual Basis of Accounting

Criteria: Under the modified accrual basis of accounting, as required by GASB standards, expenditures should be recorded in the period when the liability is incurred, except for certain long-term liabilities (e.g., debt service, compensated absences). Delaying recognition until cash payment results in financial statement misstatements.

Condition: The Project did not recognize certain expenditures in the period in which the related liabilities were incurred. Specifically, an invoice for goods and services (SV-031262) totaling \$43,377 received in 2020 was recorded in 2021 upon payment of invoice. Furthermore, an invoice for goods and services (SV-031455) totaling \$61,273 received in 2021 was recorded in 2022 upon payment of invoice.

Cause: Accounting procedures appeared to be focused on recording expenditures when payments were made rather than when liabilities were incurred. Additionally, there was no formal process for accruing outstanding obligations at year-end.

Effect: Expenditures in the financial statement for the current fiscal year were misstated due to expenditures in the prior fiscal year being understated by \$43,377 and expenditures in the following fiscal year being overstated by \$61,273, thus distorting financial reporting and budgetary compliance. Audit adjustments were proposed to correct the current year financial statement misstatement.

Recommendation: We recommend the Project implement policies to ensure expenditures are recorded when incurred, regardless of payment timing; establish a year-end accrual process to identify and record outstanding obligations; and train finance personnel on the modified accrual basis to ensure compliance with GASB standards.

Auditee Response and Corrective Action Plan: KAJUR acknowledges the findings and will establish policies to ensure that expenditures are recorded and adjusted on year-end accordingly to ensure compliance with the accounting standards.



*The Auditor's Communication With Those Charged  
With Governance*

**Republic of the Marshall Islands**

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the Government of Australia (Grant Number 0439 RMI (EF)))

Year ended September 30, 2021



March 24, 2025

Honorable Minister David Paul  
Ministry of Finance, Banking and Postal Services  
Republic of the Marshall Islands

We have performed an audit of the financial statement of the Republic of the Marshall Islands (RMI) Ebeye Water Supply and Sanitation Project (the “Project”) jointly financed by the Asian Development Bank’s Special Fund (Grant Numbers 0438 RMI (SF) and 0749 RMI (SF)) and the Government of Australia (Grant Number 0439 RMI (EF)), which comprises the statement of revenues, expenditures and changes in fund balance for the year ended September 30, 2021, in accordance with auditing standards generally accepted in the United States, issued by the Comptroller General of the United States, and have issued our report thereon dated March 24, 2025.

This report summarizes our communications with those charged with governance as required by our professional standards to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process.

## **REQUIRED COMMUNICATIONS**

Professional standards require the auditor to provide the Board of Directors (the Board) with additional information regarding the scope and results of the audit that may assist the Board in overseeing the financial reporting and disclosure processes which the management of PUSIP is responsible. We summarize these required communications as follows:

### **Overview of the planned scope and timing of the audit**

Our audit scope and timing is consistent with the plan communicated in our engagement letter dated April 22, 2024 and at our audit planning meeting with management.

### **Auditors’ Responsibilities under Auditing Standards Generally Accepted in the United States (US GAAS) and Generally Accepted Government Auditing Standards (GAGAS)**

The financial statement is the responsibility of the Project’s management as prepared with the oversight of those charged with governance. Our audit was designed in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, to obtain reasonable, rather than absolute, assurance that the financial statement is free of material misstatement.

An audit of financial statements includes consideration of 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 the entity's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

Our responsibilities are included in our audit engagement agreement.

**Changes to the audit strategy, timing of the audit and significant risks identified**

Our audit strategy is consistent with the plan communicated during the October 2024 meeting with Management.

**Matters relevant to our evaluation of the entity's ability to continue as a going concern**

We did not identify any events or conditions that led us to believe there was substantial doubt about the Project's ability to continue as a going concern.

**Our views about the qualitative aspects of the entity's significant accounting practices, including:**

- **Accounting policies**

Management has not selected or changed any significant policies or changed the application of those policies in the current year.

We have provided a discussion of significant accounting policies and financial statement disclosures and related matters in Note 2 of the financial statement.

We determined that those charged with governance are informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

**Related party relationships and transactions**

We noted no significant matters regarding the Project's relationships and transactions with related parties.

**Changes to the terms of the audit with no reasonable justification for the change**

None.

**Significant unusual transactions**

We are not aware of any significant unusual transactions executed by the Project.

**Difficult or contentious matters subject to consultation outside of the audit team**

There were no difficult or contentious matters that required consultation outside of the audit team.

**Material corrected misstatements related to accounts and disclosures**

Refer to the “Management Representations Letter” in Appendix A.

**Uncorrected misstatements related to accounts and disclosures, considered by management to be immaterial**

No uncorrected misstatements were identified in connection with our audit of the Project’s financial statement for the year ended September 30, 2021.

**Significant deficiencies and material weaknesses in internal control over financial reporting**

We have issued our Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated March 24, 2025. In that report, we identified certain deficiencies in internal control that we consider to be material weaknesses.

**Fraud and noncompliance with laws and regulations (illegal acts)**

We are not aware of any matters that require communication.

**Obtain information relevant to the audit**

Inquiries regarding matters relevant to the audit were performed during the October 2024 meeting.

**Independence matters**

We are not aware of any matters that in our professional judgment would impair our independence.

**New accounting pronouncements**

No issues have been identified with regard to management’s planned application of new accounting pronouncements.

**Significant issues discussed with management in connection with the auditor’s initial appointment or recurring retention**

We are not aware of any matters that require communication.

**Disagreements with management and significant difficulties encountered in dealing with management when performing the audit**

There were no difficulties encountered in dealing with management in performing the audit.

**Management's consultations with other accountants**

We are not aware of any consultations made by management with other accountants or specialists.

**Other material written communications with management**

None.

**Other matters**

There are no other matters arising from the audit that are, in our judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

**AICPA ethics ruling regarding third-party service providers**

From time to time, and depending on the circumstances, (1) we may subcontract portions of the Audit Services to other EY firms, who may deal with the Project or its affiliates directly, although EY alone will remain responsible to you for the Audit Services and (2) personnel (including non-certified public accountants) from an affiliate of EY or another EY firm or any of their respective affiliates, or from independent third-party service providers (including independent contractors), may participate in providing the Audit Services. In addition, third-party service providers may perform services for EY in connection with the Audit Services.

**Engagement team's involvement with preparation of the financial statements**

Under *Government Auditing Standards* 2018 Revisions, Chapter 3 General Standards, Paragraph 3.73 Requirements for Performing Non-audit Services explains that the audit team should make consideration of management's ability to effectively oversee the non-audit (or non-attest) services to be performed. The engagement team should determine that the audited entity has designated an individual(s) who possesses suitable skill, knowledge or experience and that the individuals understand the services to be performed sufficiently to oversee them. The engagement team should document consideration of management's ability to oversee non-audit services to be performed.

The engagement team believes that this significant threat is reduced to an acceptable level upon application of the following safeguards:

- An engagement quality control review was performed by a qualified Ernst & Young Partner who was not otherwise involved in the audit.
- All adjusting journal entries that Ernst & Young posted to the trial balance have been approved by management of the Project.
- The preparation of the financial statement is based on the Project's trial balance with our understanding that the Project's underlying books and records are maintained by the Project's accounting department and that the final trial balance prepared by the Project is complete.

- The Project's Accountant has the skill sets to oversee and review the completeness and accuracy of the financial statement and footnote disclosures.

*Ernst + Young*

Honorable Minister David Paul  
Ministry of Finance, Banking and Postal Services  
RMI Ebeye Water Supply and Sanitation Project

March 24, 2025

## Appendix

A – Management Representations Letter

March 24, 2025

A – Management Representations Letter



Kwajalein Atoll Joint Utilities Resources  
PO BOX 5819  
Ebeye Marshall Islands 96960  
Phone: (692) 329-3799

March 24, 2025

Ernst & Young LLP  
Ernst & Young Building  
231 Ypao Road, Suite 201  
Tamuning, Guam 96931

In connection with your audit of the financial statement of the Republic of the Marshall Islands (RMI) Ebeye Water Supply and Sanitation (EWSSP) (the Project) jointly financed by the Asian Development Bank's Special Fund (Grant Numbers 0438 RMI (SF) and 0749 RMI (SF)) and the Government of Australia (Grant Number 0439 RMI (EF)) for the year ended September 30, 2021, and the related notes to the financial statement, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statement presents fairly, in all material respects, the financial operations of the Project in conformity with US generally accepted accounting principles (US GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

***Management's responsibilities***

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated April 22, 2024, or the preparation and fair presentation of the financial statement (including disclosures) in accordance with US GAAP applied on a basis consistent with that of the preceding years.

In preparing the financial statement, we evaluated whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Project's ability to continue as a going concern for one year after the date that the financial statement is issued (or available to be issued, if applicable), and to provide appropriate financial statement disclosure, when applicable, related to going concern and using the going concern basis of accounting unless we prepared the financial statement in accordance with the liquidation basis of accounting.



A - Management Representations Letter, continued

We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error. We have provided you with:

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statement such as records, data, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within the Project from whom you determined it necessary to obtain evidence

From October 1, 2021 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material effect on the financial statement, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

***Uncorrected misstatements***

There are no uncorrected misstatements (including the effects of correcting or reversing prior period uncorrected misstatements), or uncorrected misstatements in disclosures relating to the current period financial statement.

***Corrected misstatements***

We are in agreement with the audit adjustments you have proposed (Appendix A) and have posted the adjusting journal entries to the Project's books.

***Internal control***

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statement.

We are not aware of any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting.

A - Management Representations Letter, continued

**Significant Contracts**

We have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

***Related party relationships and transactions***

We have made available to you the names of all related parties and all relationships and transactions with related parties.

The substance of transactions with related parties has been considered and appropriate adjustments or disclosures are made in the financial statement, and information concerning these transactions and amounts have been made available to you.

***Side agreements and other arrangements***

There have been no side agreements or other arrangements (either written or oral) that have not been disclosed to you.

***Arrangements with financial institutions***

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statement.

***Contingent liabilities***

There are no unasserted claims or assessments, including those our lawyers have advised us of that are probable of assertion and must be disclosed in the financial statements. For the year ended September 30, 2021, the Project did not consult with legal counsel concerning any matters relative to litigation, claims or assessments made against the Project.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statement or as a basis for recording a loss contingency other than those disclosed or accrued in the financial statement.

There have been no internal investigations or communications from regulatory agencies or government representatives in any jurisdiction concerning investigations or allegations of noncompliance with laws or regulations, noncompliance with or deficiencies in financial reporting practices, or other matters that could affect the financial statement other than those disclosed or accrued in the financial statement.

A - Management Representations Letter, continued

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed in the financial statement.

***Oral or written guarantees***

There are no oral or written guarantees, including guarantees of the debt of others.

***Non-compliance with laws and regulations, including fraud***

We acknowledge that we are responsible to determine that the Project's business activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws or regulations, including fraud.

We acknowledge our responsibility for the design, implementation and maintenance of a system of internal control to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statement may be materially misstated as a result of fraud.

We have disclosed to you all significant facts relating to any frauds or suspected frauds, or allegations of fraud known to us that may have affected the Project (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statement. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statement.

We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statement.

***Independence***

We have communicated to you the names of the Project's affiliates, officers and directors, or individuals who serve in such capacity for the Project.

We are not aware of any business relationship between the Project and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be independent for purposes of the Project's audit.

A - Management Representations Letter, continued

***Conflicts of interest***

There are no instances where any officer or employee of the Project has an interest in a company with which the Project does business that would be considered a “conflict of interest.”- Such an interest would be contrary to the Project policy.

***Going concern***

In preparing the financial statement, we evaluated the entity’s ability to continue as a going concern for twelve months after the date that the financial statement is issued and provide appropriate financial statement disclosure.

***Supplementary information***

We are responsible for the preparation and fair presentation of the Combining Statement of Revenues, Expenditures and Changes in Fund Balance and Schedule of Budgeted vs. Actual Expenditures (the “Supplementary Information”) in accordance with GASB Codification Section 2200, Comprehensive Annual Financial Report.

We believe the supplementary information, including its form and content, is fairly stated in all material respects.

There have been no changes in the methods of measurement or presentation of the supplementary information from those used in the prior period.

There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

***Additional representations***

- We recognize that we are responsible for the Project’s compliance with the laws, regulations, provisions of contracts and grant agreements that are applicable to it. We have identified and disclosed to your representatives all laws, regulations, provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- We have identified to your representatives all previous audits, attestation engagements, and other studies related to the audit objectives and whether the related recommendations have been implemented.

A - Management Representations Letter, continued

- We have informed you of any investigations or legal proceedings that have been initiated or are in process with respect to the period under audit.
- We have identified and disclosed to you, all provisions of laws and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds. We have identified and disclosed to you, all instances of identified or suspected noncompliance with laws, regulations, and provisions of contracts and grant agreements where the noncompliance could have a direct and material effect on the financial statement.
- We have followed all applicable laws and regulations in adopting, approving and amending budgets, and deposits, including collateral requirements on depository accounts.
- There have been no instances of abuse that have occurred or are likely to have occurred that could be quantitatively or qualitatively material to the financial statement.
- The Project has obligated, expended, received and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by Marshall Islands or federal law. Such obligation, expenditure, receipt or use of public funds was in accordance with any limitations, conditions or mandatory directions imposed by Marshall Islands or federal law.
- Subsequent events have been evaluated and classified as recognized or nonrecognized through the date of this letter.

***Other matters***

We have received a draft copy of our financial statement for the year ended September 30, 2021. The accuracy and completeness of the financial statement, including footnote disclosures, are our responsibility.

You have assisted in the preparation of our financial statement based on information in our trial balance and accounting records. It is our understanding that:

- Our underlying books and records are maintained by our accounting department and that the final trial balance prepared by us is complete and,
- All adjusting journal entries posted to the trial balance have been approved by us, and
- We have designated a competent representative to oversee your services and that our personnel have sufficient financial competence who are able to challenge and review the completeness and accuracy of the financial statement, including footnote disclosures.

March 24, 2025

A - Management Representations Letter, continued

We have reviewed the draft financial statement for accuracy and completeness.

We acknowledge that we have reviewed them and taken responsibility for them.

***Subsequent events***

Subsequent to September 30, 2021, no events or transactions have occurred or are pending that would have a material effect on the basic financial statement at that date or for the period then ended, or that are of such significance in relation to the Project's affairs to require mention in a note to the financial statement in order to make them not misleading regarding the financial position and changes in financial position of the Project.

\*\*\*\*\*

We understand that your audit was conducted in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and was, therefore, designed primarily for the purpose of expressing an opinion on the financial statement of the Project and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,



Joseph Pedro  
KAJUR, General Manager

A - Management Representations Letter, continued

Appendix

A– Schedule of Corrected Misstatements

## A - Management Representations Letter, continued

### Appendix A – Schedule of Corrected Misstatements

#### Communication schedule for corrected misstatements

Entity: Ebeye Water Supply and Sanitation Project			Period ended: 30-Sep-2021				Currency: USD			
Corrected misstatements			Analysis of misstatements Debit/(Credit)							
No.	W/P ref.	Account	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement effect of the current period	
(misstatements are recorded as journal entries with a description)			Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Non taxable
1	VE1	To correct recorded expense								
		Grant Revenue - ADB Contribution							20 841	
		Equipment							(20 841)	
2	UE1	To reclass ADB Contribution to RMI Contribution								
		Grant Revenue - ADB Contribution							9 429	
		Grant Revenue - RMI Contribution							(9 429)	
3	VE1	To correct FY20 expense as a portion of SV-031262 recorded in FY21								
		Grant Revenue - ADB Contribution							43 377	
		Equipment							(43 377)	
4	VE1	To correct for September 2021 invoice not accrued in FY21								
		Equipment							61 273	
		Grant Revenue - ADB Contribution							(61 273)	
Total of corrected misstatements before income tax			0	0	0	0	0	0	0	0
Financial statement amounts			0	0	0	0	0		(502,384)	
Effect of corrected misstatements on F/S amounts			0.0%	0.0%	0.0%	0.0%	0.0%		0.0%	

[For US PCAOB audits we are required to communicate all misstatements that are accumulated on our SAD.]



*Report of Independent Accountants on the Schedule of  
Project Expenditures*

**Republic of the Marshall Islands**

**Ebeye Water Supply and Sanitation Project**

(Jointly Financed by the Asian Development Bank's Special  
Fund (Grant Numbers 0438 RMI (SF) and 0749 RMI (SF)) and  
the Government of Australia (Grant Number 0439 RMI (EF)))

*Year ended September 30, 2021*



*Management Letter*

**Republic of the Marshall Islands**

**Ebeye Water Supply and Sanitation Project**

(Jointly Financed by the Asian Development Bank's Special Fund (Grant Numbers 0438 RMI (SF) and 0749 RMI (SF)) and the Government of Australia (Grant Number 0439 RMI (EF)))

*Year ended September 30, 2021*



March 24, 2025

Honorable Minister David Paul  
Ministry of Finance, Banking and Postal Services  
Republic of the Marshall Islands

In planning and performing our audit of the financial statement of the Republic of the Marshall Islands (RMI) Ebeye Water Supply and Sanitation Project (the Project) jointly financed by the Asian Development Bank's Special Fund (Grant Numbers 0438-RMI (SF) and 0749-RMI (SF)) and the Government of Australia (Grant Number 0439-RMI (EF)) for the year ended September 30, 2021, 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 its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

## **Revenues**

**Condition:** During our audit, we noted one instance where an expenditure of \$57,836 was not fully paid by grant proceeds resulting in the amount of \$9,428 requiring to be paid by Kwajalein Atoll Joint Utilities Resources, Inc. An audit adjustment was proposed to reclassify revenues and to present the unpaid amount as an RMI contribution.

**Recommendation:** We recommend Project management implement a formal review process to ensure all revenue amounts are recorded based on source of payment.

## **Expenditures**

Condition: During our audit, we noted one instance where an expenditure was not recorded based on vendor invoice amount. Specifically, we noted one instance where the recorded expenditure amount of \$78,677 exceeded the invoice amount (SV-031455) of \$57,836 by \$20,841. An audit adjustment was proposed to correct the recorded amount.

Recommendation: We recommend Project management implement a formal review process to ensure all expenditures are recorded based on vendor invoice amounts.

\* \* \* \* \*

This communication is intended solely for the information and use of Project management, the Asian Development Bank, 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.

At this time, we would like to thank all the staff and management of the Project for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Very truly yours,

*Ernst + Young*

**Republic of the Marshall Islands**  
**Ebeye Water Supply and Sanitation Project**  
(Jointly Financed by the Asian Development Bank's Special  
Fund (Grant Numbers 0438 RMI (SF) and 0749 RMI (SF)) and  
the Government of Australia (Grant Number 0439 RMI (EF)))

Schedule of Project Expenditures

Year ended September 30, 2021

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## Report of Independent Accountants

Honorable Minister David Paul  
Ministry of Finance, Banking, and Postal Services  
Republic of the Marshall Islands

We have examined the Republic of the Marshall Islands (the “RMI”) Ministry of Finance, Banking, and Postal Services’ compliance with appropriate use of grant proceeds as set forth in the terms, covenants, provisions and conditions of Articles III and IV of the respective grant agreements dated October 13, 2015 and December 11, 2020 for the Ebeye Water Supply and Sanitation Project, as presented in the accompanying schedule (Schedule of Project Expenditures), for the year ended September 30 2021. The RMI Ministry of Finance, Banking, and Postal Services’ management is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the RMI Ministry of Finance, Banking, and Postal Services’ compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (“AICPA”). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the RMI Ministry of Finance, Banking, and Postal Services complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the RMI Ministry of Finance, Banking, and Postal Services complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent of the RMI Ministry of Finance, Banking, and Postal Services and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our examination engagement.

Our examination does not provide a legal determination on the RMI Ministry of Finance, Banking, and Postal Services’ compliance with specified requirements.

Our examination was limited to compliance with the specified sections of the respective grant agreements. Because of the nature and inherent limitations, controls may not prevent, or detect and correct, all errors or fraud that may be considered relevant.

In our opinion, the RMI Ministry of Finance, Banking, and Postal Services complied, in all material respects, with appropriate use of Ebeye Water Supply and Sanitation Project grant proceeds as set forth in the terms, covenants, provisions and conditions of Articles III and IV of the respective grant agreement requirements during year ended September 30, 2021.

This report is intended solely for the information and use of the RMI Ministry of Finance, Banking, and Postal Services and the Asian Development Bank for assessing the RMI Ministry of Finance, Banking, and Postal Services' compliance with appropriate use of Ebeye Water Supply and Sanitation Project grant proceeds as set forth in the terms, covenants, provisions and conditions of Articles III and IV of the respective grant agreements and is not intended to be and should not be used by anyone other than the specified parties.

*Ernst + Young*

March 24, 2025

**Republic of the Marshall Islands**  
**Ebeye Water Supply and Sanitation Project**  
(Jointly Financed by the Asian Development Bank's Special  
Fund (Grant Numbers 0438 RMI (SF) and 0749 RMI (SF)) and  
the Government of Australia (Grant Number 0439 RMI (EF)))

Schedule of Project Expenditures

Year ended September 30, 2021

(See accompanying Report of Independent Accountants)

	<u>ADB 0438</u>	<u>ADB 0749</u>	<u>Total</u>
Expenditures:			
Investment costs:			
Equipment and materials	\$ <u>86,583</u>	\$ <u>449,750</u>	\$ <u>536,333</u>