

*Financial Statements and Reports on Internal Control and
Compliance*

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

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



Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Financial Statements and Reports on Internal Control and Compliance

Year ended September 30, 2021

Contents

Report of Independent Auditors.....	1
Audited Basic Financial Statements	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements.....	7
Reports on Internal Control and Compliance	
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 <i>Government Auditing Standards</i>	20
Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	22
Schedule of Expenditures of Federal Awards.....	25
Notes to Schedule of Expenditures of Federal Awards	26
Schedule of Findings and Questioned Costs.....	27



Report of Independent Auditors

Board of Directors
Kwajalein Atoll Joint Utilities Resources, Inc.

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the business-type activities 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, 2021, and the related notes to the financial statements, which collectively comprise KAJUR's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit 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. Because of the matters described in the "Basis for Disclaimer of Opinion" section of our report, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We did not observe the taking of the physical inventory of fuel and supplies at September 30, 2021 (stated at \$426,940) since that date was prior to the time we were initially engaged as auditors for KAJUR. We were unable to satisfy ourselves about inventory quantities by means of other auditing procedures.

KAJUR's utility receivables and related electric and service billings revenue balances as of and for the year ended September 30, 2021 (stated at \$3,274,564 and \$4,279,954, respectively), are significant to the financial statements. As part of our audit procedures, we requested confirmations from a sample of customers regarding their outstanding balances; however, we were unable to obtain sufficient responses. Additionally, due to a lack of available supporting documentation, we were unable to perform alternative audit procedures to verify the existence and accuracy of these utility receivables and the occurrence, completeness and accuracy of related electric and service billings revenue. Because we were unable to obtain sufficient appropriate audit evidence regarding utility receivables and related electric and service billings revenue, we could not determine whether any adjustments to receivables, revenue, or related financial statement items were necessary.

KAJUR has not updated its allowance for uncollectible accounts receivable, which does not reflect recent collection trends or current economic conditions. Because of lack of updating the allowance for uncollectible accounts receivable, we are unable to form an opinion regarding the amount at which net accounts receivable is recorded in the accompanying statement of net position at September 30, 2021 (stated at \$478,297).

Because of inadequacies in KAJUR's accounting records, we are unable to form an opinion regarding the amount of construction work in progress in the accompanying statement of net position at September 30, 2021 (stated at \$714,903).

As discussed in Note 7 to the financial statements, KAJUR was the recipient of capital contributions associated with the World Bank Sustainable Energy Development Project. KAJUR did not record capital assets received during the year ended September 30, 2021, associated with this project as required by accounting principles generally accepted in the United States of America. Accounting principles generally accepted in the United States of America requires that contributed capital assets be recorded at cost on the date of construction and recognized as an asset and capital contribution revenue. Management's failure to recognize these assets results in an understatement of capital assets and change in net position in the financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis of Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

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 basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2025, 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 engagement to conduct an audit in accordance with *Government Auditing Standards* in considering KAJUR's internal control over financial reporting and compliance.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

September 12, 2025

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Net Position

September 30, 2021

Assets

Current assets:

Cash	\$ 1,032,733
Accounts receivable, net	478,297
Due from RepMar	663,930
Fuel and supplies	<u>426,940</u>
Total current assets	<u>2,601,900</u>

Utility plant:

Electric plant in service	19,498,442
Less accumulated depreciation and amortization	(<u>9,264,400</u>)
	<u>10,234,042</u>

Construction work in progress	<u>714,903</u>
-------------------------------	----------------

Total capital assets	<u>10,948,945</u>
----------------------	-------------------

Total assets	<u><u>\$ 13,550,845</u></u>
--------------	-----------------------------

Liabilities and Net Position

Current liabilities:

Accounts payable	\$ 105,103
Payable to affiliates	7,179,856
Accrued leave	41,740
Other liabilities and accruals	7,845
Social security taxes payable	83,369
Unearned revenue	<u>166,352</u>
Total liabilities	<u>7,584,265</u>

Commitments and contingencies

Net position:

Net investment in capital assets	10,948,945
Restricted	22,478
Unrestricted	(<u>5,004,843</u>)
Total net position	<u>5,966,580</u>
Total liabilities and net position	<u><u>\$ 13,550,845</u></u>

See accompanying notes.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2021

Operating revenues:	
Electric and service billings	\$ 4,279,954
Water sales	313,095
Fuel sales	300,232
Other	<u>3,678</u>
	4,896,959
Provision for doubtful accounts	(<u>75,075</u>)
Total net operating revenues	<u>4,821,884</u>
Operating expenses:	
Fuel and lubricants	3,434,885
Salaries, wages and benefits	1,411,490
Depreciation	851,878
Operations and maintenance	557,104
Genset rental	213,976
Mid-corridor utilities	158,882
Travel and transportation	148,338
Supplies and materials	123,977
Contractual services	48,307
Communications	37,456
Board activities	34,342
Rental	26,268
Entertainment	21,428
Insurance	17,667
Membership fees	10,507
Bank charges	4,382
Miscellaneous	<u>16,207</u>
Total operating expenses	<u>7,117,094</u>
Operating loss	(<u>2,295,210</u>)
Nonoperating income:	
RepMar subsidies	2,100,086
Asian Development Bank grants	<u>502,384</u>
Total nonoperating income	<u>2,602,470</u>
Change in net position	307,260
Net position at beginning of year	<u>5,659,320</u>
Net position at end of year	<u>\$ 5,966,580</u>

See accompanying notes.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Cash Flows

Year ended September 30, 2021

Cash flows from operating activities:	
Cash received from customers	\$ 4,597,984
Cash payments to suppliers for goods and services	(4,194,099)
Cash payments to employees for services	(1,329,209)
Net cash used in operating activities	(925,324)
Cash flows from noncapital financing activities:	
Operating RepMar subsidies received	1,436,156
Other grants received	502,384
Cash provided by noncapital financing activities	1,938,540
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(88,462)
Net change in cash	924,754
Cash at beginning of year	107,979
Cash at end of year	\$ 1,032,733
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,295,210)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	851,878
Provision for doubtful accounts	75,075
Change in assets and liabilities:	
Accounts receivable	(194,955)
Fuel and supplies	100,168
Prepaid expenses	1,750
Accounts payable	(106,043)
Payable to affiliates	743,457
Other accrued liabilities	85,983
Social security taxes payable	(28,545)
Unearned revenue	(158,882)
Net cash used in operating activities	\$ (925,324)

See accompanying notes.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements

Year ended September 30, 2021

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. (MEC). 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 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.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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, 2021, KAJUR does not have nonexpendable restricted net position. Expendable net position whose use by KAJUR is subject to externally imposed stipulations that can be fulfilled by actions of KAJUR pursuant to those stipulations or that expire with the passage of time. As of September 30, 2021, KAJUR has restricted expendable net position of \$22,478 associated with Power Plants Fuel and Waste Oil Management System Upgrade Phase 1.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use for the same purpose, it is KAJUR's policy to use unrestricted resources first, then restricted resources as they are needed.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Revenue Recognition

KAJUR's revenues are derived primarily from the operation of the utility generation and distribution system on Ebeye. Capital grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. Specifically, sales of electricity and water are recorded as billed to customers on a monthly billing cycle basis. Unbilled revenues are not accrued as the most recent meter reading date approximates the end of the reporting period. All expenses related to operating KAJUR are reported as operating expenses.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Cash

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

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash in checking accounts. As of September 30, 2021, the carrying amount of cash was \$1,032,733, and the corresponding bank balance was \$1,128,598. Of the bank balance amount, \$81,715 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits of \$1,046,883 are maintained in a financial institution not subject to depository insurance. As of September 30, 2021, bank deposits in the amount of \$81,715 were subject to FDIC insurance. KAJUR does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

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

Inventories

Inventories of fuel and supplies are stated at the lower of cost (first-in, first-out) or market (net realizable value) at September 30, 2021. Bulk fuel inventories are held for power plant use.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Capital Assets

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.

Estimated useful lives of depreciable capital assets 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.

Compensated Absences

KAJUR recognizes the cost of accrued annual leave at the time such leave is earned. As of September 30, 2021, KAJUR recorded a liability of \$41,740 associated with accrued annual leave within the statement of net position. Unused annual or vacation leave hours in excess of the 208 hours annual limit will not be carried over into a succeeding payroll year. Annual or vacation time can be taken up to a maximum of twenty (20) days in a payroll year.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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. As of September 30, 2021, KAJUR recorded a liability of \$166,352 associated with Mid-Corridor Utility Support not yet applied to Mid-Corridor resident accounts.

Recently Adopted Accounting Pronouncements

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed 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, KAJUR's management has elected to postpone implementation of these statements.

During the year ended September 30, 2021, KAJUR implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves 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.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending September 30, 2022.

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

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

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 the 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 the fiscal year ending September 30, 2022.

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 the fiscal year ending September 30, 2023.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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 are effective for the fiscal year ending 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 the 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 the fiscal year ending September 30, 2023.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for the 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 revenue tax (GRT) of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, sales of electricity by public utility companies are exempt from GRT. Accordingly, KAJUR is exempt from GRT on the sale of electric services. KAJUR is required to pay GRT on all other revenues.

Estimates

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

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

3. Accounts Receivable

Accounts receivable as of September 30, 2021, net of allowance for uncollectible accounts, consist of the following:

RepMar and affiliates:	
Utility	\$ 1,227,840
Non-utility	<u>254,668</u>
	1,482,508
Other:	
Utility	2,046,724
Due from related party	154,820
Due from grantor	47,679
Employees	61,158
Other	<u>383,998</u>
	4,176,887
Less allowance for uncollectible accounts	<u>(3,698,590)</u>
	<u>\$ 478,297</u>

4. Inventories

Fuel and supplies as of September 30, 2021, consist of the following:

Fuel	\$ 204,308
Distribution and power plant supplies	297,439
Lubricants	<u>50,996</u>
	552,743
Less allowance for obsolescence	<u>(125,803)</u>
	<u>\$ 426,940</u>

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

5. Capital Assets

Capital asset activities for the year ended September 30, 2021, were as follows:

	October <u>1, 2020</u>	<u>Additions</u>	Transfers and <u>Disposals</u>	September <u>30, 2021</u>
Nondepreciable capital assets:				
Construction work-in-progress	\$ <u>714,022</u>	\$ <u>881</u>	\$ <u>---</u>	\$ <u>714,903</u>
Depreciable capital assets:				
Utility plant:				
Water system	12,259,712	---	(500)	12,259,212
Plant and machinery	3,045,883	---	---	3,045,883
Distribution system	2,125,576	26,752	(3,704)	2,148,624
Other equipment	<u>1,986,134</u>	<u>60,829</u>	<u>(2,240)</u>	<u>2,044,723</u>
	19,417,305	87,581	(6,444)	19,498,442
Less accumulated depreciation	<u>(8,418,966)</u>	<u>(851,878)</u>	<u>6,444</u>	<u>(9,264,400)</u>
	<u>10,998,339</u>	<u>(764,297)</u>	<u>---</u>	<u>10,234,042</u>
	<u>\$ 11,712,361</u>	<u>\$ (763,416)</u>	<u>\$ <u>---</u></u>	<u>\$ 10,948,945</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 \$24,566 to Plan participant accounts during the year ended September 30, 2021, and total combined plan assets was \$1,796,276 as of September 30, 2021.

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.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

7. Related Party Transactions, continued

A summary of related party transactions for the year ended September 30, 2021 and the related receivable and payable balances as of September 30, 2021 are as follows:

	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$3,434,885	\$ 127,677	\$7,175,196
Marshall Islands National Telecommunications Authority	35,951	22,980	600
Marshall Islands Marine Resources Authority	26,268	311,000	---
RepMar	14,533	905,832	1,310
Others	<u>146,848</u>	<u>115,019</u>	<u>2,750</u>
	<u>\$3,658,485</u>	<u>\$1,482,508</u>	<u>\$7,179,856</u>

During the year ended September 30, 2021, KAJUR was the recipient of operating subsidies from RepMar as follows:

Compact of Free Association Kwajalein Impact Fund:	
Power Generation Support and Maintenance	\$ 663,930
Mid-Corridor Utilities Support	158,882
European Development Fund:	
Power Generation Support and Maintenance	658,619
General Fund:	
COVID19	<u>618,655</u>
	<u>\$2,100,086</u>

As of September 30, 2021, KAJUR recorded a receivable of \$663,930 relating to these operating subsidies.

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, 2021, the unexpended amount of \$22,478 is restricted within net position.

In 2015, the Asian Development Bank (ADB) approved two grants (Grant Nos. 0438-RMI and 0439-RMI) to RepMar in the aggregate amount of \$9,000,000 for the Ebeye Water Supply and Sanitation Project. Simultaneously, the ADB entered into a project agreement with KAJUR for the purpose of implementing the Project by improving water and sanitation systems on Ebeye. The grant agreements required that the grant proceeds be made available to KAJUR for the purpose of financing expenditures of the Project. During the year ended September 30, 2021, KAJUR was the recipient of grant proceeds in the amount of \$502,384 for operations and maintenance of the Ebeye water treatment plant.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

7. Related Party Transactions, continued

In 2018, RepMar entered into a financing agreement with the International Development Association (IDA), a member of the World Bank Group, for the Sustainable Energy Development Project. 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 contract with a vendor in the amount of \$2,317,542 for the purchase of two gensets and two diesel generator engines on Ebeye island to be operated by KAJUR. These generators were delivered, commissioned, and have been in operation since April 2021 supplying electricity to Ebeye. KAJUR has not recorded capital assets received during the year ended September 30, 2021, associated with this project.

In 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 totaled \$159,430. As of September 30, 2021, the individual is no longer a Board member and the receivable from the local company amounts to \$154,820.

8. Risk Management

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

9. Contingencies

KAJUR incurred a loss from operations of \$2,295,211 during the year ended September 30, 2021. 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 several 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 because of these audits will not be material to the financial position of KAJUR.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

9. Contingencies, continued

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.

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

Board of Directors
Kwajalein Atoll Joint Utilities Resources, Inc.

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities 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, 2021, and the related notes to the financial statements, which collectively comprise KAJUR's basic financial statements, and have issued our report thereon dated September 12, 2025. Our report stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements.

Internal Control Over Financial Reporting

In planning the engagement to audit 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.

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 Schedule of Findings and Questioned Costs as items 2021-001 through 2021-004 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KAJUR's financial statements are free of 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 Schedule of Findings and Questioned Costs as item 2021-005.

KAJUR's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on KAJUR's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. KAJUR's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

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 engagement to audit 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, cursive script font.

September 12, 2025



Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on 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. (KAJUR) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on KAJUR's sole major federal program for the year ended September 30, 2021. 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 (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); 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.

Opinion on the Sole Major Federal Program

In our opinion, 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, 2021.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 were engaged to audit the financial statements of KAJUR as of and for the year ended September 30, 2021 and have issued our report thereon dated September 12, 2025, which contained a disclaimer of opinion on those financial statements due to the inadequacy of the accounting records. Our engagement to audit was 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 engagement to audit 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. Due to the inadequacy of the accounting records, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the schedule of expenditures of federal awards. Accordingly, we do not express an opinion on the schedule of expenditures of federal awards.

Ernst + Young

September 12, 2025

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Expenditures of Federal Awards

Year ended September 30, 2021

<u>Program Title</u>	<u>Document #</u>	<u>Note</u>	<u>Expenditures FY21</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)	\$ 663,930
Mid-Corridor Utilities Support	D20AF00018-00020	(2)	<u>158,882</u>
			<u>\$ 822,812</u>

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

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

1. Included within fuel and lubricant expense of \$3,434,885.
2. Included within mid-corridor utilities expense of \$158,882.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2021

1. Scope of Audit

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. Only the transactions of KAJUR are included within the scope of the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of KAJUR under a program of the federal government for the year ended September 30, 2021. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of KAJUR, it is not intended to and does not present the net position, changes in net position or cash flows of KAJUR.

3. Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting, consistent with the manner in which KAJUR maintains its accounting records. All expenses and capital outlays are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. KAJUR has not elected to use the 10-percent de-minimis indirect cost rate allowed under the Uniform Guidance.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs

Year ended September 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

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

Disclaimer

Internal control over financial reporting:

Material weakness(es) identified?

 X **Yes**

 No

Significant deficiency(ies) identified?

 Yes

 X **None reported**

Noncompliance material to financial statements noted?

 Yes

 X **No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

 Yes

 X **No**

Significant deficiency(ies) identified?

 Yes

 X **None reported**

Type of auditor's report issued on compliance for the sole major federal program

Unmodified

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

 Yes

 X **No**

Identification of the sole major federal program:

Assistance Listing Number

(ALN)

15.875

Name of Federal Program

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?

 Yes

 X **No**

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Section II - Financial Statement Findings

<u>Finding Numbers</u>	<u>Finding</u>
2021-001	Utility Receivables/Electric and Service Billing Revenue
2021-002	Allowance for Uncollectible Accounts Receivable
2021-003	Construction Work In Progress (CWIP)
2021-004	Capital Contributions

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Finding No. 2021-001

Utility Receivables/Electric and Service Billing Revenue

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework requires that entities must maintain complete and accurate financial records that are readily available for audit. Proper documentation of utility receivables and related service billings is essential to ensure financial reporting accuracy, revenue completeness, and compliance with applicable laws and regulations.

Condition: As of September 30, 2021, KAJUR record uncollected utility receivable balances of \$3,274,564 and recorded electric and service billings revenue of \$4,279,954 during the year then ended. We were unable to obtain complete and accurate utility service billing data from KAJUR's billing system necessary to verify the existence and accuracy of these utility receivables and the occurrence, completeness and accuracy of related electric and service billings revenue. The lack of available data prevented us from performing substantive audit procedures to ensure that utility receivables and related revenues were properly recorded, billed, and collected.

Cause: Unavailability of utility service billing data is attributed to the inability of accounting personnel to retrieve utility service billing data from KAJUR's billing system.

Effect: Inability to obtain utility service billing data results in an audit scope limitation leading to a disclaimer of opinion.

Recommendation: We recommend that management implement formal policies and procedures to ensure that all utility service billing ledgers are properly maintained and readily accessible for audit. Furthermore, we recommend management evaluate and, if necessary, upgrade financial systems to ensure accurate and complete record-keeping. Finally, we recommend management conduct training to reinforce the importance of proper financial documentation and audit readiness.

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.
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Finding No. 2021-002

Allowance for Uncollectible Accounts Receivable

Criteria: The COSO internal control framework requires that entities should maintain an accounts receivable aging report to monitor outstanding receivables, assess the risk of uncollectible accounts, support the determination of an appropriate allowance for doubtful accounts, and ensure the accuracy and completeness of financial reporting.

Condition: As of September 30, 2021, KAJUR recorded \$4,176,887 in accounts receivable with a corresponding allowance for doubtful accounts of \$3,698,590. However, KAJUR does not maintain an aging report to track outstanding receivable balances by age. As a result, management was unable to accurately assess the collectability of receivables and determine an appropriate allowance for doubtful accounts.

Cause: Absence of an aging report is due to limitations in KAJUR's financial system and reporting capabilities and inadequate oversight of receivable management practices.

Effect: Lack of an aging report increases the risk of misstatement of financial statements as the allowance for doubtful accounts may not be accurately estimated and, as a result, a higher risk of uncollectible accounts as overdue balances may not be effectively tracked or followed up. Such results in an audit scope limitation leading to a disclaimer of opinion.

Recommendation: We recommend that management implement a formal accounts receivable aging process to track outstanding balances by customer and age category (e.g., 30, 60, 90+ days past due) and assign responsibility to finance personnel to regularly review and update the aging report to ensure timely follow-up on outstanding balances. Furthermore, we recommend management utilize the aging report to analyze collectability trends and establish an appropriate allowance for doubtful 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.
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Finding No. 2021-003

Construction Work In Progress (CWIP)

Criteria: U.S. generally accepted accounting principles (GAAP) requires that entities must maintain detailed and accurate records of capital assets, including CWIP, to ensure financial statement accuracy and proper asset management. A subsidiary ledger is essential for tracking project costs, ensuring proper capitalization, and facilitating reconciliations with the general ledger.

Condition: During our audit, we noted that KAJUR does not maintain an updated subsidiary register for Construction Work in Progress (CWIP) to support the September 30, 2021 balance of \$714,903. The subsidiary register reconciling CWIP balances reported in the financial statements with underlying project costs was not made available.

Cause: The lack of an updated CWIP subsidiary register may be due to inadequate internal controls over capital asset accounting and project tracking and the lack of formal policies and procedures requiring periodic updates and reconciliations.

Effect: The failure to maintain an updated subsidiary register for CWIP increases the risk of misstatement of financial statements as CWIP balances may be incomplete, overstated, or understated. Such results in an audit scope limitation leading to a disclaimer of opinion.

Recommendation: We recommend that management establish and maintain a detailed subsidiary register for CWIP, ensuring it is updated regularly with project costs, milestones, and completion percentages. Furthermore, we recommend that management develop formal policies and procedures requiring periodic reviews and updates of the CWIP subsidiary register.

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.
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Finding No. 2021-004

Capital Contributions

Criteria: In accordance with U.S. GAAP, including those established by the Governmental Accounting Standards Board (GASB), entities are required to recognize contributed capital assets and related capital contributions at their estimated fair value at the time of construction. Furthermore, effective internal controls should ensure the timely and accurate recording of all capital asset transactions.

Condition: KAJUR does not have a process in place to identify, track, and record contributed capital assets and related capital contributions. As a result, the purchase of two gensets and two diesel generator engines funded by the World Bank's Sustainable Energy Development Project were omitted from the financial statements. These gensets and engines were commissioned and brought online during the year ended September 30, 2021.

Cause: Lack of a formalized system for identifying and recording capital asset contributions.

Effect: Financial statements are misstated, as capital assets and related capital contributions are not reported at their appropriate value resulting in noncompliance with GAAP. Failure to account for capital asset contributions leads to an incomplete understanding of KAJUR's financial position. Such results in an audit scope limitation leading to a disclaimer of opinion.

Recommendation: We recommend management establish policies and procedures to ensure all contributed capital assets and related capital contributions are identified, valued, and recorded in the financial system. Furthermore, we recommend management implement periodic training for staff on the importance of identifying and recording contributed capital assets to ensure compliance with accounting standards.

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
 PO BOX 5819
 Ebeye Marshall Islands 96960
 Phone: (692) 329-3799

**CORRECTIVE ACTION PLAN
 2 CFR & 200.511 (c)
 Year Ended 30 September 2021**

Finding Num	Planned Corrective Action	Anticipated Completion date	Responsible Contact person
2021-001	<u>Utility Receivables/Electric and Service Billing Revenue:</u> KAJUR agrees to the finding. As of FY 2025, KAJUR have hired a financial staff accountant to ensure that utility service billing ledgers are properly maintained	Q1 FY 2026	Joseph T. Pedro General Manager
2021-002	<u>Allowance for Uncollectible Accounts Receivable</u> KAJUR agrees to the finding. As of FY 2025, KAJUR have hired a financial staff accountant to assist with implementing internal policies and control measures to ensure financial reports and accounts receivables.	Q1 FY 2026	Joseph T. Pedro General Manager
2021-003	<u>Construction Work In Progress (CWIP)</u> KAJUR acknowledges the findings and will establish a detailed subsidiary ledger for CWIP, that will be updated regularly with any additional project cost and completion milestones, and establish formal policies and procedures for periodic review	FY 2025	Joseph T. Pedro General Manager
2021-004	<u>Capital Contributions</u> 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.	FY 2025	Joseph T. Pedro General Manager