

*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)

*Years ended September 30, 2022 and 2021
with Report of Independent Auditors*



**Shape the future
with confidence**

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

Years ended September 30, 2022 and 2021

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Report of Independent Auditors

Board of Directors
Kwajalein Atoll Joint Utilities Resources, Inc.

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit 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 years ended September 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise KAJUR's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

We do not express an opinion on the accompanying financial statements of the business-type activities of KAJUR. Because of the significance of the matters described in the "Basis for 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 on these financial statements.

Basis for Disclaimer of Opinion

We did not observe the taking of the physical inventory of fuel and supplies at September 30, 2022 and 2021 (stated at \$499,828 and \$426,940, respectively) since those dates were 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 (stated at \$3,242,404 and \$3,274,564, respectively) and related electric and service billings revenue balances (stated at \$4,420,895 and \$4,279,954, respectively) as of and for the years ended September 30, 2022 and 2021 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 statements of net position at September 30, 2022 and 2021 (stated at \$489,065 and \$478,297, respectively).

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 statements of net position at September 30, 2022 and 2021 (stated at \$1,196,677 and \$714,903, respectively).

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 years ended September 30, 2022 and 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.

Management did not provide the minutes of meetings of the Board of Directors for the year ended September 30, 2022, nor for meetings held after that date. These minutes are necessary to understand key decisions, potential legal claims, acquisitions, and going concern issues.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about KAJUR's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of KAJUR's financial statements 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. However, because of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on KAJUR's financial statements.

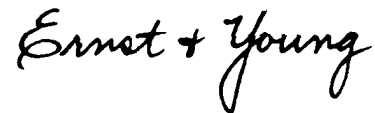
Other Matters

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2026, 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, handwritten-style script.

June 11, 2026

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

Statements of Net Position

	September 30,	
	<u>2022</u>	<u>2021</u>
Assets		
Current assets:		
Cash	\$ 438,438	\$ 1,032,733
Accounts receivable, net	489,065	478,297
Due from RepMar	---	663,930
Prepayments	154,937	---
Fuel and supplies	499,828	426,940
Total current assets	<u>1,582,268</u>	<u>2,601,900</u>
Utility plant:		
Electric plant in service	14,674,705	19,498,442
Less accumulated depreciation and amortization	(4,972,785)	(9,264,400)
	9,701,920	10,234,042
Construction work in progress	1,196,677	714,903
Total capital assets	<u>10,898,597</u>	<u>10,948,945</u>
Total assets	<u>\$ 12,480,865</u>	<u>\$ 13,550,845</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 20,215	\$ 105,103
Contracts payable	481,774	---
Payable to affiliates	7,871,361	7,179,856
Accrued leave	42,169	41,740
Other liabilities and accruals	3,887	7,845
Social security taxes payable	58,097	83,369
Unearned revenue	287,128	166,352
Total liabilities	<u>8,764,631</u>	<u>7,584,265</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	10,898,597	10,948,945
Restricted	22,478	22,478
Unrestricted	(7,204,841)	(5,004,843)
Total net position	<u>3,716,234</u>	<u>5,966,580</u>
Total liabilities and net position	<u>\$ 12,480,865</u>	<u>\$ 13,550,845</u>

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30,	
	2022	2021
Operating revenues:		
Electric and service billings	\$ 4,420,895	\$ 4,279,954
Fuel sales	357,026	300,232
Water sales	53,373	313,095
Other	4,810	3,678
	<u>4,836,104</u>	<u>4,896,959</u>
Less provision for doubtful accounts	(95,739)	(75,075)
Total net operating revenues	<u>4,740,365</u>	<u>4,821,884</u>
Operating expenses:		
Fuel and lubricants	5,513,249	3,434,885
Salaries, wages and benefits	1,479,199	1,411,490
Operations and maintenance	901,105	557,104
Depreciation	813,416	851,878
Contractual services	164,453	48,307
Mid-corridor utilities	154,984	158,882
Supplies and materials	141,621	123,977
Travel and transportation	112,855	148,338
Communications	46,458	37,456
Rental	35,206	26,268
Insurance	17,667	17,667
Board activities	14,914	34,342
Membership fees	9,466	10,507
Entertainment	6,505	21,428
Bank charges	3,556	4,382
Genset rental	---	213,976
Miscellaneous	19,125	16,207
Total operating expenses	<u>9,433,779</u>	<u>7,117,094</u>
Operating loss	(4,693,414)	(2,295,210)
Nonoperating revenues (expenses):		
RepMar subsidies	1,546,773	2,100,086
Asian Development Bank grants	831,880	502,384
Loss on write-off of capital assets	(82,835)	---
Total nonoperating revenues, net	<u>2,295,818</u>	<u>2,602,470</u>
(Loss) profit before capital contributions	(2,397,596)	307,260
Capital contributions:		
Marshalls Energy Company, Inc.	147,250	---
Change in net position	(2,250,346)	307,260
Net position at beginning of year	<u>5,966,580</u>	<u>5,659,320</u>
Net position at end of year	<u>\$ 3,716,234</u>	<u>\$ 5,966,580</u>

See accompanying notes.

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

Statements of Cash Flows

	Year ended September 30,	
	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,848,612	\$ 4,597,984
Cash payments to suppliers for goods and services	(6,791,602)	(4,194,099)
Cash payments to employees for services	(1,477,009)	(1,329,209)
Net cash used in operating activities	(3,419,999)	(925,324)
Cash flows from noncapital financing activities:		
Operating RepMar subsidies received	2,210,703	1,436,156
Other grants received	831,880	502,384
Cash provided by noncapital financing activities	3,042,583	1,938,540
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(216,879)	(88,462)
Net change in cash	(594,295)	924,754
Cash at beginning of year	1,032,733	107,979
Cash at end of year	<u>\$ 438,438</u>	<u>\$ 1,032,733</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$(4,693,414)	\$(2,295,210)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	813,416	851,878
Provision for doubtful accounts	95,739	75,075
Change in assets and liabilities:		
Accounts receivable	(106,507)	(194,955)
Prepayments	(154,937)	1,750
Fuel and supplies	(72,888)	100,168
Accounts payable	(84,888)	(106,043)
Payable to affiliates	691,505	743,457
Other accrued liabilities	(3,529)	85,983
Social security taxes payable	(25,272)	(28,545)
Unearned revenue	120,776	(158,882)
Net cash used in operating activities	<u>\$(3,419,999)</u>	<u>\$(925,324)</u>

See accompanying notes.

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

Statements of Cash Flows, continued

	Year ended September 30,	
	<u>2022</u>	<u>2021</u>
Non-cash capital and related financing activities:		
Bucket truck contribution:		
Capital assets	\$ 147,250	\$ ---
Contributions - Marshalls Energy Company, Inc.	(147,250)	---
	<u>\$ ---</u>	<u>\$ ---</u>
Write-off of capital assets:		
Capital assets	\$ 5,187,866	\$ 6,444
Accumulated depreciation	(5,105,031)	(6,444)
Loss on write-off of capital assets	(82,835)	---
	<u>\$ ---</u>	<u>\$ ---</u>

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

Notes to Financial Statements

Years ended September 30, 2022 and 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, 2022 and 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, 2022 and 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 an 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, 2022 and 2021, the carrying amount of cash was \$438,438 and \$1,032,733, respectively, and the corresponding bank balance was \$816,875 and \$1,128,598, respectively. Of the bank balance amount, \$175,144 and \$81,715, respectively, is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$641,731 and \$1,046,883, respectively, is maintained in a financial institution not subject to depository insurance. As of September 30, 2022 and 2021, bank deposits in the amount of \$175,144 and \$81,715, respectively, were FDIC insured. KAJUR does not require collateralization of its cash deposits; therefore, deposit levels more than 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, 2022 and 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 statements 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 statements 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, 2022 and 2021, KAJUR recorded a liability of \$42,169 and \$41,740, respectively, associated with accrued annual leave within the statements of net position. Unused annual or vacation leave hours more than 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.

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, 2022 and 2021, KAJUR recorded a liability of \$287,128 and \$166,352, respectively, associated with Mid-Corridor Utility Support not yet applied to Mid-Corridor resident accounts.

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

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, 2022, KAJUR implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which 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.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period.
- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.
- GASB 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*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

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

Recently Adopted Accounting Pronouncements, continued

- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:
 - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended.
 - 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets.
 - 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit.
 - 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
 - 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.
 - 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021.

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 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. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

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. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.

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

- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.
- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.
- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

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 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to ascertain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact has occurred, has begun to occur, or is more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for the fiscal year ending September 30, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by GASB. This Statement establishes new accounting and financial reporting requirements - or modifies existing requirements - related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary comparison information; and f) financial trends information in the statistical section. GASB Statement No. 103 will be effective for the fiscal year ending September 30, 2026.

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 September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for the fiscal year ending September 30, 2026.

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. GASB Statement No. 105 will be effective for the fiscal year ending September 30, 2027.

Management is evaluating the effect that these Statements, upon implementation, will have on the financial statements.

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.

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

Estimates

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

3. Accounts Receivable

Accounts receivable as of September 30, 2022 and 2021, net of allowance for uncollectible accounts, consist of the following:

	<u>2022</u>	<u>2021</u>
RepMar and affiliates:		
Utility	\$1,118,844	\$1,227,840
Non-utility	<u>384,419</u>	<u>254,668</u>
	1,503,263	1,482,508
Other:		
Utility	2,123,560	2,046,724
Due from former Board member	154,820	154,820
Due from grantor	47,679	47,679
Employees	59,397	61,158
Other	<u>394,675</u>	<u>383,998</u>
	4,283,394	4,176,887
Allowance for uncollectible accounts	<u>(3,794,329)</u>	<u>(3,698,590)</u>
	<u>\$ 489,065</u>	<u>\$ 478,297</u>

4. Inventories

Fuel and supplies as of September 30, 2022 and 2021, consist of the following:

	<u>2022</u>	<u>2021</u>
Fuel	\$ 329,499	\$ 204,308
Distribution and power plant supplies	262,202	297,439
Lubricants	<u>37,375</u>	<u>50,996</u>
	629,076	552,743
Less allowance for obsolescence	<u>(129,248)</u>	<u>(125,803)</u>
	<u>\$ 499,828</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 years ended September 30, 2022 and 2021, were as follows:

	<u>2022</u>			
	<u>October 1, 2021</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2022</u>
Nondepreciable capital assets:				
Construction work-in-progress	\$ <u>714,903</u>	\$ <u>481,774</u>	\$ <u>---</u>	\$ <u>1,196,677</u>
Depreciable capital assets:				
Utility plant:				
Water system	12,259,212	1,136	(1,213,480)	11,046,868
Plant and machinery	3,045,883	10,279	(2,595,416)	460,746
Distribution system	2,148,624	---	(230,233)	1,918,391
Other equipment	<u>2,044,723</u>	<u>352,714</u>	<u>(1,148,737)</u>	<u>1,248,700</u>
	19,498,442	364,129	(5,187,866)	14,674,705
Less accumulated depreciation	(<u>9,264,400</u>)	(<u>813,416</u>)	<u>5,105,031</u>	(<u>4,972,785</u>)
	<u>10,234,042</u>	(<u>449,287</u>)	(<u>82,835</u>)	<u>9,701,920</u>
	<u>\$10,948,945</u>	\$ <u>32,487</u>	\$(<u>82,835</u>)	<u>\$10,898,597</u>
	<u>2021</u>			
	<u>October 1, 2020</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 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>\$10,948,945</u>

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

Notes to Financial Statements, continued

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. During the years ended September 30, 2022 and 2021, KAJUR contributed \$41,853 and \$24,566, respectively, to Plan participant accounts. As of September 30, 2022 and 2021, total Plan assets were \$1,566,448 and \$1,796,276, respectively.

7. Related Party Transactions

KAJUR is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including MEC.

KAJUR's utility service is provided to RepMar and all RepMar-owned and affiliated entities. Services are extended to these entities at more favorable terms and conditions than those afforded to third parties. In addition, KAJUR purchases fuel from MEC at substantially more favorable terms and conditions than those provided to third parties.

A summary of related party transactions for the years ended September 30, 2022 and 2021 and the related receivable and payable balances as of September 30, 2022 and 2021 are as follows:

	<u>2022</u>		
	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$5,513,249	\$ 138,694	\$7,850,868
Marshall Islands National Telecommunications Authority	46,210	30,462	3,100
Marshall Islands Marine Resources Authority	---	325,662	---
RepMar	11,009	773,086	1,310
Others	<u>151,998</u>	<u>235,359</u>	<u>16,083</u>
	<u>\$5,722,466</u>	<u>\$1,503,263</u>	<u>\$7,871,361</u>

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

	<u>2021</u>		
	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshall's 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 years ended September 30, 2022 and 2021, KAJUR was the recipient of operating subsidies from RepMar as follows:

	<u>2022</u>	<u>2021</u>
Compact of Free Association Kwajalein Impact Fund:		
Power Generation Support and Maintenance	\$ 663,930	\$ 663,930
Mid-Corridor Utilities Support	154,224	158,882
European Development Fund:		
Power Generation Support and Maintenance	658,619	658,619
Support for Reform of Energy Sector	70,000	---
General Fund:		
COVID	<u>---</u>	<u>618,655</u>
	<u>\$1,546,773</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 and 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, 2022 and 2021, the unexpended amount of \$22,478 is restricted within net position.

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 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 years ended September 30, 2022 and 2021, KAJUR was the recipient of grant proceeds in the amount of \$831,880 and \$502,384, respectively, for operations and maintenance of the Ebeye water treatment plant.

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 SDR24,300,000 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 executed 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 years ended September 30, 2022 and 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, 2022 and 2021, the individual is no longer a Board member and the receivable from the local company amounts to \$154,820.

During the year ended September 30, 2022, KAJUR received an in-kind donation of a bucket truck from MEC in the amount of \$147,250, and which is recognized as a capital contribution in the accompanying financial statements.

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 because of these risks have not been considered material to the financial statements by management.

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

Notes to Financial Statements, continued

9. Commitments

KAJUR previously entered into certain lease agreements for staff accommodation with initial one-year terms and which are subsequently renewed on a month-to-month basis. During the years ended September 30, 2022 and 2021, related rent expense was \$30,600 per year. In addition, KAJUR previously entered into a lease agreement for office building rent, which is perpetual in nature and does not contain an ascertainable enforceable lease term. During the years ended September 30, 2022 and 2021, related rent expense was \$26,268 per year.

10. Contingencies

During the years ended September 30, 2022 and 2021, KAJUR incurred losses from operations of \$4,693,414 and \$2,295,210, respectively. KAJUR depends on RepMar for cash and noncash funding to continue its operations. Although RepMar has provided funding in the past, no formal agreement exists to provide funds in the future. The continuation of KAJUR's operations is dependent upon future financial support from RepMar in the form of operating subsidies and/or significant improvements in operations through the collection of long outstanding utility receivables and other matters. Additionally, for KAJUR to continue as a going concern, it may need to delay payments to MEC for fuel purchases.

KAJUR participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain whether 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.

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.

11. Subsequent Events

KAJUR has evaluated subsequent events through June 11, 2026, which is also the date the financial statements are available to be issued.

On June 4, 2026, the Cabinet of RepMar approved the merger of KAJUR into MEC. Under the approved plan, KAJUR will be integrated into MEC as an operating division, with the transfer of substantially all assets, liabilities, and operations to MEC.

The Cabinet directed that the merger be implemented within six months of approval, subject to completion of legislative requirements, systems integration, and other transition activities. RepMar also indicated its intent to maintain continuity of operations, including retention of employees and continued delivery of utility services.

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*

Board of Directors
Kwajalein Atoll Joint Utilities Resources, Inc.

We were engaged to audit, 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 (*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, 2022, and the related notes to the financial statements, which collectively comprise KAJUR's basic financial statements, and have issued our report thereon dated June 11, 2026. 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 those financial statements.

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of KAJUR, 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 2022-001 through 2022-007 that we consider to be material weaknesses.

Report on Compliance and Other Matters

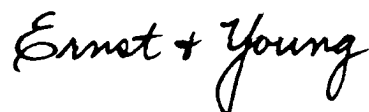
In connection with our engagement to audit the financial statements of KAJUR, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, 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*. However, if the scope of our work had been sufficient to enable us to express an opinion of the basic financial statements, instances of noncompliance or other matters may have been identified and reported herein.

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 engagement 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 perform an 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, handwritten-style script.

June 11, 2026

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 years ended September 30, 2022. 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 years ended September 30, 2022.

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 years ended September 30, 2022 and have issued our report thereon dated June 11, 2026, 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

June 11, 2026

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, 2022

<u>Program Title</u>	<u>Document #</u>	<u>Note</u>	<u>Expenditures FY2022</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	D22AF000107-00	(1)	\$ 663,930
Mid-Corridor Utilities Support	D22AF000107-00	(2)	<u>154,224</u>
			<u>\$ 818,154</u>

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

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

- (1) Included within fuel and lubricants expenses of \$5,513,249.
- (2) Included within Mid-corridor utilities expense of \$154,984.

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, 2022

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, 2022. 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, 2022

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.
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Schedule of Findings and Questioned Costs, continued

Section II - Financial Statement Findings

<u>Finding Numbers</u>	<u>Finding</u>
2022-001	Utility Receivables/Electric and Service Billing Revenue
2022-002	Allowance for Uncollectible Accounts Receivable
2022-003	Construction Work In Progress (CWIP)
2022-004	Capital Contributions
2022-005	Capital Assets
2022-006	Board Meeting Minutes
2022-007	Summary Schedule of Prior Audit Findings

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

Kwajalein Atoll Joint Utilities Resources, Inc.
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-001

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, 2022, KAJUR record uncollected utility receivable balances of \$3,242,404 and recorded electric and service billings revenue of \$4,420,895 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. This matter was also highlighted in the prior year's audit and remains unresolved as of September 30, 2022.

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: The 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.

Views of Auditee and Planned Corrective Actions: KAJUR agrees with the finding and provides details in its Corrective Action Plan.

Kwajalein Atoll Joint Utilities Resources, Inc.
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-002

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, 2022, KAJUR recorded \$4,283,394 in accounts receivable with a corresponding allowance for doubtful accounts of \$3,794,329. 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. This matter was also highlighted in the prior year's audit and remains unresolved as of September 30, 2022.

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: The 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.

Views of Auditee and Planned Corrective Actions: KAJUR agrees with the finding and provides details in its Corrective Action Plan.

Kwajalein Atoll Joint Utilities Resources, Inc.
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-003

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 engagement to audit, we noted that KAJUR does not maintain an updated subsidiary register for Construction Work in Progress (CWIP) to support the reported opening balance of \$714,903. A detailed schedule reconciling the CWIP balance in the financial statements to the underlying project costs was not provided. Furthermore, the CWIP balance has shown no movement since September 30, 2020, and management was unable to provide a current status report for the projects included in this balance. This matter was also highlighted in the prior year's audit and remains unresolved as of September 30, 2022.

Cause: 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.

Views of Auditee and Planned Corrective Actions: KAJUR agrees with the finding and provides details in its Corrective Action Plan.

Kwajalein Atoll Joint Utilities Resources, Inc.
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-004

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 totaling \$2,317,542 were omitted from the financial statements. These gensets and engines were commissioned and brought online during the year ended September 30, 2021 and the issue remains unresolved.

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 to 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.

Views of Auditee and Planned Corrective Actions: KAJUR agrees with the finding and provides details in its Corrective Action Plan.

Kwajalein Atoll Joint Utilities Resources, Inc.
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-005

Capital Assets

Criteria: The entity's governing legislation and asset management policies require prior Board approval for the disposal or write-off of capital assets, regardless of net book value. Assets should only be derecognized when they are no longer in use or capable of generating economic benefits.

Condition: During the year ended September 30, 2022, capital assets with an original cost of \$7,141,952 were written off without prior Board approval, which included the distribution system of \$2,126,821 that remained in use and continued to generate economic benefit. An adjustment was proposed to reinstate the distribution system.

Cause: Management treatment of full depreciation as a justification for disposal and write-off, without recognizing that Board approval is required irrespective of depreciation status and that assets should not be written off while still operational.

Effect: These actions weaken governance oversight and compromise the accuracy of fixed asset records. Writing off an active, revenue-generating asset increases the risk of misstatement and reduces transparency and accountability in financial reporting.

Recommendation: We recommend management ensure all asset disposals and write-offs receive prior Board approval and that assets remain recognized until they are fully retired from service. Controls over asset derecognition and documentation should be strengthened.

Views of Auditee and Planned Corrective Actions: KAJUR agrees with the finding and provides details in its Corrective Action Plan.

Kwajalein Atoll Joint Utilities Resources, Inc.
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-006

Board Meeting Minutes

Criteria: Sound governance and internal control practices require that governing bodies maintain accurate and complete records of their meetings. Board minutes serve as an official record of decisions, approvals, and oversight activities, and are essential for demonstrating accountability and transparency.

Condition: During our audit, we noted that KAJUR did not maintain minutes for meetings of the Board of Directors. Based on GL activity for the year ended September 30, 2022, sitting fees were paid to Board members for meetings on the following dates:

December 15, 2021	February 9, 2022	February 24, 2022
May 19, 2022	July 20, 2022	September 28, 2022

No formal documentation existed to evidence that meetings were held, actions were approved, or key decisions were made.

Cause: The condition appears to result from inadequate policies and procedures regarding the preparation, review, and retention of board meeting minutes, as well as a lack of clearly assigned responsibility for maintaining such records.

Effect: The absence of board minutes limits the ability to verify that appropriate governance and oversight functions are being performed. This increases the risk that significant decisions are not properly authorized or documented and reduces transparency and accountability to stakeholders.

Recommendation: We recommend that management implement formal policies requiring the timely preparation, review, and approval of board meeting minutes. Minutes should clearly document attendance, matters discussed, decisions made, and approvals granted. Additionally, responsibility for maintaining these records should be assigned to a designated individual, and procedures should be established to ensure proper retention and accessibility.

Views of Auditee and Planned Corrective Actions: KAJUR agrees with the finding and provides details in its Corrective Action Plan.

Kwajalein Atoll Joint Utilities Resources, Inc.
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-007

Summary Schedule of Prior Audit Findings

Criteria: In accordance with the Uniform Guidance (2 CFR Part 200, Subpart F – Audit Requirements, Section 200.511), auditees must prepare a Summary Schedule of Prior Audit Findings. This schedule should report the status of all findings from prior audits, including whether the findings were corrected, remain uncorrected, or are partially corrected, and any reasons for recurrence.

Condition: During our engagement to audit, we noted that KAJUR did not prepare or include a Summary Schedule of Prior Audit Findings as required by the Uniform Guidance. This schedule is essential to track the status of previously reported findings and demonstrate whether corrective actions have been implemented.

Cause: The absence of this required schedule appears to be due to the lack of formal policies and procedures for ensuring required audit documentation is prepared and a limited awareness or understanding of Uniform Guidance requirements.

Effect: The failure to prepare a Summary Schedule of Prior Audit Findings results in noncompliance with federal audit requirements under Uniform Guidance and delays in audit resolution, which could impact grantor or oversight agency reviews.

Recommendation: We recommend that management develop and implement formal procedures to ensure that a Summary Schedule of Prior Audit Findings is prepared and reviewed annually as part of the audit process. Furthermore, we recommend management provide training on audit compliance requirements to relevant personnel to ensure understanding and consistent implementation.

Views of Auditee and Planned Corrective Actions: KAJUR agrees with the finding and provides details in its Corrective Action Plan.



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CORRECTIVE ACTION PLAN
2 CFR & 200.511 (c)
Year Ended 30 September 2022

Finding Number	Planned Corrective Action	Anticipated Completion date	Responsible Contact person
2022-001	<u>Utility Receivables/Electric and Service Billing Revenue:</u> KAJUR agrees to the finding. KAJUR ensures that utility service billing ledgers are properly maintained and available for audit. For FY2023, KAJUR will be able to provide the billing register for viewing.	Q3 FY2023	Joseph T. Pedro General Manager
2022-002	<u>Allowance for Uncollectible Accounts Receivable</u> KAJUR agrees with the finding. As of FY2023 to date, KAJUR has been able to prepare aging reports. For FY2021 and FY2022, in the absence of aging reports, allowance estimates were determined based on an analysis of each individual account and its collectability. Although aging reports were not available for those years, management believes the allowance estimates represent the best available estimates and may be as accurate as, or potentially more precise than, estimates derived from an aging report.	Q3 FY2023	Joseph T. Pedro General Manager
2022-003	<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.	FY2023	Joseph T. Pedro General Manager



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CORRECTIVE ACTION PLAN
2 CFR & 200.511 (c)
Year Ended 30 September 2022

Finding Number	Planned Corrective Action	Anticipated Completion date	Responsible Contact person
2022-004	<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.	FY2023	Joseph T. Pedro General Manager
2022-005	<u>Capital Assets</u> KAJUR agrees with the finding. KAJUR will ensure that all disposal are documented with approval and are still recognized until fully retired.	FY2023	Joseph T. Pedro General Manager
2022-006	<u>Board Meeting Minutes</u> KAJUR accepts this finding and is committed to strengthening its administrative controls. Moving forward, management will implement a centralized cloud-based archiving system to ensure all Board of Directors' minutes are securely digitized and stored in compliance with record-keeping standards.	FY2023	Joseph T. Pedro General Manager



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CORRECTIVE ACTION PLAN
2 CFR & 200.511 (c)
Year Ended 30 September 2022

Finding Number	Planned Corrective Action	Anticipated Completion date	Responsible Contact person
2022-007	<u>Summary Schedule of Prior Audit Findings</u> Management concurs with the finding and will ensure that the Schedule of Prior Audit Findings will be part of the audit file submissions. To address the training recommendation, Management will work with the SOEMU (MOFBPS) to conduct training and information sharing on section 2 CFR § 200.511 requirements. This session will be formally documented via a signed internal training log to ensure complete accountability and consistent annual implementation moving forward.	FY2023	Joseph T. Pedro General Manager