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

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund)

Years ended September 30, 2024 and 2023
with Report of Independent Auditors

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Report on Internal Control and Compliance

Years ended September 30, 2024 and 2023

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Report of Independent Auditors

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

Report on the Audit of the Financial Statement

Opinion

We have audited the financial statement of the Republic of the Marshall Islands (RMI) Preparing Urban Service Improvement Projects (the Project) financed by the Asian Development Bank's Special Fund, which comprises the statements of project account for the years ended September 30, 2024 and 2023, and the related notes to the financial statement.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of the Project for the years ended September 30, 2024 and 2023 in accordance with the cash basis of accounting described in Note 2 to the financial statement.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Project and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Reporting Entity

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

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Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 2 to the financial statement; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Project's ability to continue as a going concern for 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 Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Project's ability to continue as a going concern for a reasonable period of time.

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We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Basis of Accounting

We draw attention to Note 2 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement that collectively comprise the Project's basic financial statement. The supplementary information, which comprises the Schedule of Budget vs. Actual Expenditures on page 8, is presented for purposes of additional analysis and is not a required part of the basic financial statement. 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 basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statement as a whole.

Other Information

Management is responsible for the other information included in the financial statement. The other information comprises the Detailed Reconciliation of ADB Grant Funds Received on page 9 but does not include the financial statement and our auditor's report thereon. Our opinion on the financial statement does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statement, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statement, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2026, on our consideration of the Project's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Project's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing* in considering the Project's internal control over financial reporting and compliance.

Ernst + Young

March 19, 2026

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund)

Statements of Project Account

	Year ended September 30, 2024	Year ended September 30, 2023
Cash receipts:		
ADB grant drawdowns:	$ 273,006	619,363
Total cash receipts	273,006	619,363
Cash disbursements:		
Investment costs:		
Consulting services	273,006	581,073
Materials and equipment	---	38,290
Total cash disbursements	273,006	619,363
Net change	$ ---	$ ---

See accompanying notes.

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund)

Notes to Financial Statement

Years ended September 30, 2024 and 2023

1. Organization

On February 6, 2020, the Republic of the Marshall Islands (RMI) through the Ministry of Finance, Banking and Postal Services (MOFBPS or the Recipient) entered into a grant agreement (Grant Number 6028 RMI (SF)) with the Asian Development Bank (ADB) for the purpose of assisting in financing the implementation of Preparing Urban Service Improvement Projects (the Project). The ADB agreed to extend to the Recipient the amount of $5,000,000 under Grant Number 6028 RMI (SF) to cover eligible expenditures up to the closing date of July 31, 2023. On July 27, 2023, the initial closing date was extended to July 31, 2025, as approved by the ADB.

The objective of the Project is to:

a) provide capacity development of the project readiness financing (PRF) Implementing agencies for the Ensuing Projects through training and knowledge transfer activities, limited start-up activities including the establishment of the project management unit, and the implementation of public awareness and community outreach campaigns on water, sanitation and solid waste issues;

b) provide project preparatory activities in the form of identifying the investment scope of ensuing Projects, conducting feasibility studies and due diligence assessments, completing detailed engineering design and surveys, and supporting advance procurement actions including preparation of bidding documents for priority project components;

c) review of the financial management, performance, and tariff schemes of implementing agencies for the Ensuing Projects, capacity development to strengthen water supply and wastewater asset management and operations and procurement of leak detection equipment to support the building to reduce water loss; and

d) development of an integrated solid waste management investment plan for Majuro.

MOFBPS is designated as the representative of the RMI for the purposes of the grant regulations as well as the Project Implementation Agency responsible for carrying out of the Project. The accompanying financial statement is prepared for and relates solely to those accounting records maintained by MOFBPS associated with the Project and do not incorporate any accounts related to other non-Project activities of MOFBPS or any other departments or agencies of the RMI Government.

2. Summary of Significant Accounting Principles

Basis of Accounting

The Project's policy is to maintain its accounts and prepare its financial statement on the cash basis of accounting. Cash basis of accounting is a special purpose framework, and similar to other bases such as tax, regulatory and contractual, use a definitive set of logical, reasonable criteria that is applied to all material items appearing in the financial statements. The cash, tax, regulatory, and other bases of accounting are commonly referred to as other comprehensive basis of accounting (**OCBOA**).

The cash basis differs from accounting principles generally accepted in the United States of America (GAAP) primarily because receipts/revenues are recognized when received rather than when earned and disbursements/expenses are recognized when paid rather than when the obligation is incurred. The American Institute of Certified Public Accountants (AICPA) issues nonauthoritative guidance and best practices in the form of Practice Aids.

All transactions are denominated in USD and are recognized as receipts or disbursements, including direct payments made by the ADB to vendors. Direct payments are disbursements made by the ADB, at the request of MOFBPS, to designated beneficiaries (e.g., supplier, contractor, or consultant) directly. MOFBPS is responsible for collecting supporting documents and preparing and sending withdrawal applications to the ADB.

3. RMI Government Contributions

Under the provisions of the grant agreement, the RMI Government is required to provide counterpart in-kind contributions estimated at $502,000 in the form of exemption of taxes and duties. Management believes that the counterpart in-kind contributions from the RMI Government will be provided throughout the duration of the Project. For the years ended September 30, 2024 and 2023, the RMI Government has not yet made counterpart in-kind contributions.

4. Commitments

The ADB has made grant proceeds of $5,000,000 available to the RMI Government for the purpose of exclusively financing Project expenditures in accordance with grant agreement provisions. As of September 30, 2024 and 2023, remaining commitments associated with unused grant proceeds amount to $3,948,964 and $4,221,970, respectively.

5. Subsequent Event

MOFBPS has evaluated subsequent events through March 19, 2026, which is also the date the Project's financial statement is available to be issued. On July 24, 2025, the ADB approved a further extension of the closing date to July 31, 2026.

Supplementary and Other Information

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund

Schedule of Budgeted vs. Actual Expenditures

Period from inception (February 6, 2020) through September 30, 2024

	Budget			Actual			
	Original Budget	Adjustments	Adjusted Budget	Cumulative from February 6, 2020 to September 30, 2023	Year ended September 30, 2024	Cumulative from February 6, 2020 to September 30, 2024	Variance
Expenditures:							
Investment costs:							
Consulting services	$ 4,616,000	$ ---	$ 4,616,000	$ 685,928	$ 273,006	$ 958,934	$ 3,657,066
Materials and equipment	70,000	---	70,000	92,102	---	92,102	(22,102)
	4,686,000	---	4,686,000	778,030	273,006	1,051,036	3,634,964
Contingencies:							
Physical	237,000	---	237,000	---	---	---	237,000
Price	77,000	---	77,000	---	---	---	77,000
	314,000	---	314,000	---	---	---	314,000
Total expenditures	$ 5,000,000	$ ---	$ 5,000,000	$ 778,030	$ 273,006	$ 1,051,036	$ 3,948,964

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund)

Detailed Reconciliation of ADB Grant Funds Received – Grant 6028

September 30, 2024

WITHDRAWAL APPLICATION NOS. (WA)	DISBURSEMENT METHOD (Identify whether Reimbursement, Direct Payment, etc)	Per APFS (amount reported in the project financial statement as reimb, DP etc.) (A)				Per LFIS (actual paid per ADB LFS/GFIS system) (B)		DIFFERENCE and REASON (ie. timing, forex, pending, rejected) (C = A - B)	
		Date	In local currency (i)	Exchange Rate (ii)	USD Equivalent (i*ii) (A)	Value Date	In USD (B)	Amount (A - B)	Reason/ Justification
1	Direct Payment	12/4/2020	20,000.00	1.00	20,000.00	12/4/2020	20,000.00	-	
2	Direct Payment	11/6/2020	15,323.83	1.00	15,323.83	11/6/2020	15,323.83	-	
3	Direct Payment	11/6/2020	10,542.00	1.00	10,542.00	11/6/2020	10,542.00	-	
4	Direct Payment	12/16/2020	7,380.00	1.00	7,380.00	12/16/2020	7,380.00	-	
5	Direct Payment	10/5/2021	4,281.73	1.00	4,281.73	10/5/2021	4,281.73	-	
6	Direct Payment	5/6/2021	1,620.00	1.00	1,620.00	5/6/2021	1,620.00	-	
7	Direct Payment	7/13/2021	7,946.00	1.00	7,946.00	7/13/2021	7,946.00	-	
10	Direct Payment	4/29/2022	8,308.40	1.00	8,308.40	4/29/2022	8,308.40	-	
11	Direct Payment	5/5/2022	6,690.00	1.00	6,690.00	5/5/2022	6,690.00	-	
12	Direct Payment	6/9/2022	30,000.00	1.00	30,000.00	6/9/2022	30,000.00	-	
13	Direct Payment	5/19/2022	21,210.00	1.00	21,210.00	5/19/2022	21,210.00	-	
14	Direct Payment	7/20/2022	5,574.00	1.00	5,574.00	7/20/2022	5,574.00	-	
15	Direct Payment	10/24/2022	38,290.63	1.00	38,290.63	10/24/2022	38,290.63	-	
16	Direct Payment	8/18/2022	5,000.00	1.00	5,000.00	8/18/2022	5,000.00	-	
17	Direct Payment	8/24/2022	2,676.00	1.00	2,676.00	8/24/2022	2,676.00	-	
18	Direct Payment	9/21/2022	4,000.00	1.00	4,000.00	9/21/2022	4,000.00	-	
19	Direct Payment	9/8/2022	3,378.00	1.00	3,378.00	9/8/2022	3,378.00	-	
20	Direct Payment	9/22/2022	4,736.69	1.00	4,736.69	9/22/2022	4,736.69	-	
21	Direct Payment	10/11/2022	69,750.00	1.00	69,750.00	10/11/2022	69,750.00	-	
23	Direct Payment	10/17/2022	9,545.00	1.00	9,545.00	10/17/2022	9,545.00	-	
24	Direct Payment	10/17/2022	5,494.41	1.00	5,494.41	10/17/2022	5,494.41	-	
25	Direct Payment	10/24/2022	6,640.00	1.00	6,640.00	10/24/2022	6,640.00	-	
27	Direct Payment	11/7/2022	9,130.00	1.00	9,130.00	11/7/2022	9,130.00	-	
28	Direct Payment	11/28/2022	16,169.88	1.00	16,169.88	11/28/2022	16,169.88	-	
30	Direct Payment	11/29/2022	8,300.00	1.00	8,300.00	11/29/2022	8,300.00	-	
31	Direct Payment	12/8/2022	22,200.00	1.00	22,200.00	12/8/2022	22,200.00	-	
32	Direct Payment	12/16/2022	9,704.46	1.00	9,704.46	12/16/2022	9,704.46	-	
33	Direct Payment	1/4/2023	9,612.00	1.00	9,612.00	1/4/2023	9,612.00	-	
34	Direct Payment	1/4/2023	10,830.00	1.00	10,830.00	1/4/2023	10,830.00	-	
35	Direct Payment	1/25/2023	16,000.00	1.00	16,000.00	1/25/2023	16,000.00	-	
36	Direct Payment	2/9/2023	11,683.18	1.00	11,683.18	2/9/2023	11,683.18	-	
37	Direct Payment	2/22/2023	17,850.00	1.00	17,850.00	2/22/2023	17,850.00	-	
38	Direct Payment	2/1/2023	11,150.00	1.00	11,150.00	2/1/2023	11,150.00	-	
39	Direct Payment	2/23/2023	13,957.58	1.00	13,957.58	2/23/2023	13,957.58	-	
40	Direct Payment	3/22/2023	41,100.00	1.00	41,100.00	3/22/2023	41,100.00	-	
41	Direct Payment	3/10/2023	11,412.40	1.00	11,412.40	3/10/2023	11,412.40	-	
42	Direct Payment	3/7/2023	20,519.44	1.00	20,519.44	3/7/2023	20,519.44	-	
43	Direct Payment	4/14/2023	10,400.00	1.00	10,400.00	4/14/2023	10,400.00	-	
44	Direct Payment	4/10/2023	11,803.90	1.00	11,803.90	4/10/2023	11,803.90	-	
45	Direct Payment	4/21/2023	8,148.61	1.00	8,148.61	4/21/2023	8,148.61	-	
46	Direct Payment	4/21/2023	3,642.00	1.00	3,642.00	4/21/2023	3,642.00	-	
47	Direct Payment	3/5/2023	20,800.00	1.00	20,800.00	3/5/2023	20,800.00	-	
48	Direct Payment	5/5/2023	9,585.00	1.00	9,585.00	5/5/2023	9,585.00	-	
49	Direct Payment	5/12/2023	120,250.00	1.00	120,250.00	5/12/2023	120,250.00	-	
50	Direct Payment	5/25/2023	1,500.00	1.00	1,500.00	5/25/2023	1,500.00	-	
51	Direct Payment	6/20/2023	6,152.50	1.00	6,152.50	6/20/2023	6,152.50	-	
52	Direct Payment	6/16/2023	10,830.00	1.00	10,830.00	6/16/2023	10,830.00	-	
53	Direct Payment	6/20/2023	11,508.00	1.00	11,508.00	6/20/2023	11,508.00	-	
54	Direct Payment	7/11/2023	22,004.57	1.00	22,004.57	7/11/2023	22,004.57	-	
55	Direct Payment	6/20/2023	1,500.00	1.00	1,500.00	6/20/2023	1,500.00	-	
56	Direct Payment	7/17/2023	10,400.00	1.00	10,400.00	7/17/2023	10,400.00	-	
57	Direct Payment	7/14/2023	10,000.00	1.00	10,000.00	7/14/2023	10,000.00	-	
58	Direct Payment	8/24/2023	1,500.00	1.00	1,500.00	8/24/2023	1,500.00	-	
60	Direct Payment	10/31/2023	1,800.00	1.00	1,800.00	10/31/2023	1,800.00	-	
61	Direct Payment	1/16/2024	20,800.00	1.00	20,800.00	1/16/2024	20,800.00	-	
63	Direct Payment	1/23/2024	9,130.00	1.00	9,130.00	1/23/2024	9,130.00	-	
64	Reimbursement	8/14/2024	80,863.23	1.00	80,863.23	8/14/2024	80,863.23	-	
65	Direct Payment	4/2/2024	45,000.00	1.00	45,000.00	4/2/2024	45,000.00	-	
66	Direct Payment	3/1/2024	9,130.00	1.00	9,130.00	3/1/2024	9,130.00	-	
68	Direct Payment	5/29/2024	6,225.00	1.00	6,225.00	5/29/2024	6,225.00	-	
70	Direct Payment	8/22/2024	100,057.99	1.00	100,057.99	8/22/2024	100,057.99	-	
TOTAL			**1,051,036.43**		**1,051,036.43**		**1,051,036.43**	**-**	

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Shape the future with confidence

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Republic of the Marshall Islands Preparing Urban Service Improvement Projects (the Project) financed by the Asian Development Bank's Special Fund, which comprises the statement of project account for the year ended September 30, 2024, and the related notes to the financial statement, and have issued our report thereon dated March 19, 2026.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

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

Purpose of this Report

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

Ernst + Young

March 19, 2026