KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Years Ended September 30, 2013 and 2012
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Kwajalein Atoll Joint Utilities Resources, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KAJUR as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 8 be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2014, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KAJUR's internal control over financial reporting and compliance.

Deloitte & Touche LLP

June 10, 2014

This section of Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) annual financial report presents our discussion and analysis of KAJUR's financial performance during the fiscal year ended September 30, 2013, with selected comparative information for the fiscal years ended September 30, 2012 and 2011. It is to be read in conjunction with the financial with the financial statements, which follow this section.

FINANCIAL HIGHTLIGHTS

It is important to note some major changes which took place during this period within KAJUR's business environment. First and foremost, the implementation of the project preparatory technical assistance phase for the Ebeye Water Supply and Sanitation Project. To meet project requirements, KAJUR added two new fulltime positions along with one temporary special project position to help build additional office space to accommodate at least ten project consultants who periodically visit Ebeye as part of the Project. Secondly, during this period KAJUR accepted, installed, and is now operating a containerized RO unit from the USAID program. While this new RO unit is an added asset which is benefitting the whole community, it is also an added expense to KAJUR's already unsustainable water operation footprint.

KAJUR's operational data clearly shows that this State-Owned Enterprise continues to face many challenges in service provision for the communities of Ebeye and Gugeegue. Fuel costs and associated expenses in transporting fuel from Majuro to Ebeye, as well as government-controlled tariff, continues to impede service improvement efforts. However, with sustained financial support from the U.S. and RMI central government and just recently the Australian government, KAJUR was able to maintain utility services to the community throughout this period with minimal service interruptions.

As in previous years, KAJUR continued to operate at a financial deficit. In FY13, the operating deficit totaled around $2.4 million, much lower than previous year's operating deficit of $3.2 million. While a decrease in operational deficit is encouraging, it is highly unlikely that full cost recovery for KAJUR's services to the community will materialize anytime soon without major system upgrades and major policy reforms.

On a more positive note, it is expected that in early FY14, KAJUR will finally payoff its long-standing debt with MISSA. This should essentially reduce KAJUR's yearly deficit by $240,000.

FINANCIAL ANALYSIS OF KAJUR

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of KAJUR's financial condition. KAJUR's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

A summary of KAJUR's Statement of Net Position is presented below:

	2013	2012	2011
Current and other assets	$ 1,453,372	$ 1,432,326	$ 1,427,350
Capital assets	2,250,377	2,681,991	3,526,918
Total assets	3,703,749	4,114,317	4,954,268
Current liabilities	2,183,364	779,058	917,005
Non-current liabilities	113,214	318,708	538,507
Total liabilities	2,296,578	1,097,766	1,455,512

Net position:			
Investment in capital assets	2,250,377	2,681,991	3,526,918
Unrestricted	(843,206)	334,560	(28,162)
Total net position	$ 1,407,171	$ 3,016,551	$ 3,498,756

As indicated above, KAJUR's capital assets decreased by $431,614 in FY 2013. Other assets increased slightly by $21,046 for an overall net decrease of $410,568 in KAJUR's total assets for FY2013. Decrease in capital assets is due primarily to additions of $248,373 less depreciation and write-off of assets of $489,147 and $190,840, respectively.

KAJUR sustained a significant increase in liabilities in FY2013. This increase is due in great part to diesel fuel KAJUR received on credit from the Marshalls Energy Company (MEC) throughout that period. Compared to FY12, KAJUR's current liabilities increased significantly by $1,404,306 in FY2013. KAJUR's total liabilities during that period increased by $1,198,812 compared to that of the previous year.

For the foreseeable future, KAJUR, as a State-Owned Enterprise, will continue to rely heavily on the RMI government for funding support to subsidize services to the Ebeye and Gugeegue communities in order to maintain tariff at a level that is affordable to these two communities.

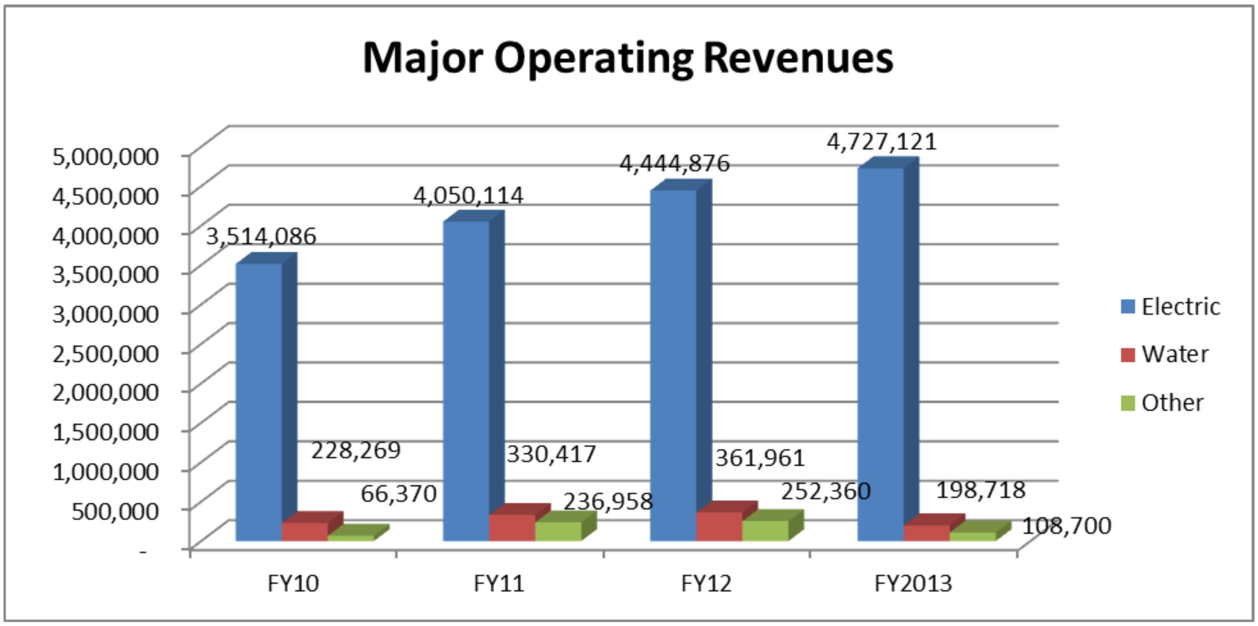
A comparative summary of KAJUR's Statement of Revenues, Expenses and Changes in Net Position is presented below:

	2013	2012	2011
Net operating revenues	$ 4,761,259	$ 4,349,098	$ 4,165,024
Non-operating revenues	1,000,000	2,852,455	1,100,000
Total revenues	5,761,259	7,201,553	5,265,024
Expenses:			
Net operating expenses	7,139,505	7,592,057	6,029,802
Non-operating expenses	231,134	91,701	105,279
Total expenses	7,370,639	7,683,758	6,135,081
Loss before capital contributions	(1,609,380)	(482,205)	(870,057)
Capital contributions	-	-	500,000
Change in net position	$ (1,609,380)	$ (482,205)	$ (370,057)

The Statement of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items that impacted change in net position. As indicated above, KAJUR's total revenues decreased significantly from $7,201,553 in FY12 to $5,761,259 in FY13. This significant decrease is mostly attributed to a $1.8 million decrease in U.S. and Japan grants received in FY13 compared to FY12. Within the operating revenues stream, electric billings increased from $4,444,876 in FY12 to $4,727,121 in FY13. This increase in electric billing is primarily attributed to better collection efforts that specifically targeted high consumers who were having problems paying off their electric consumptions. Where necessary, these specific consumers were converted from conventional metering system to pre-paid (CashPower) system.

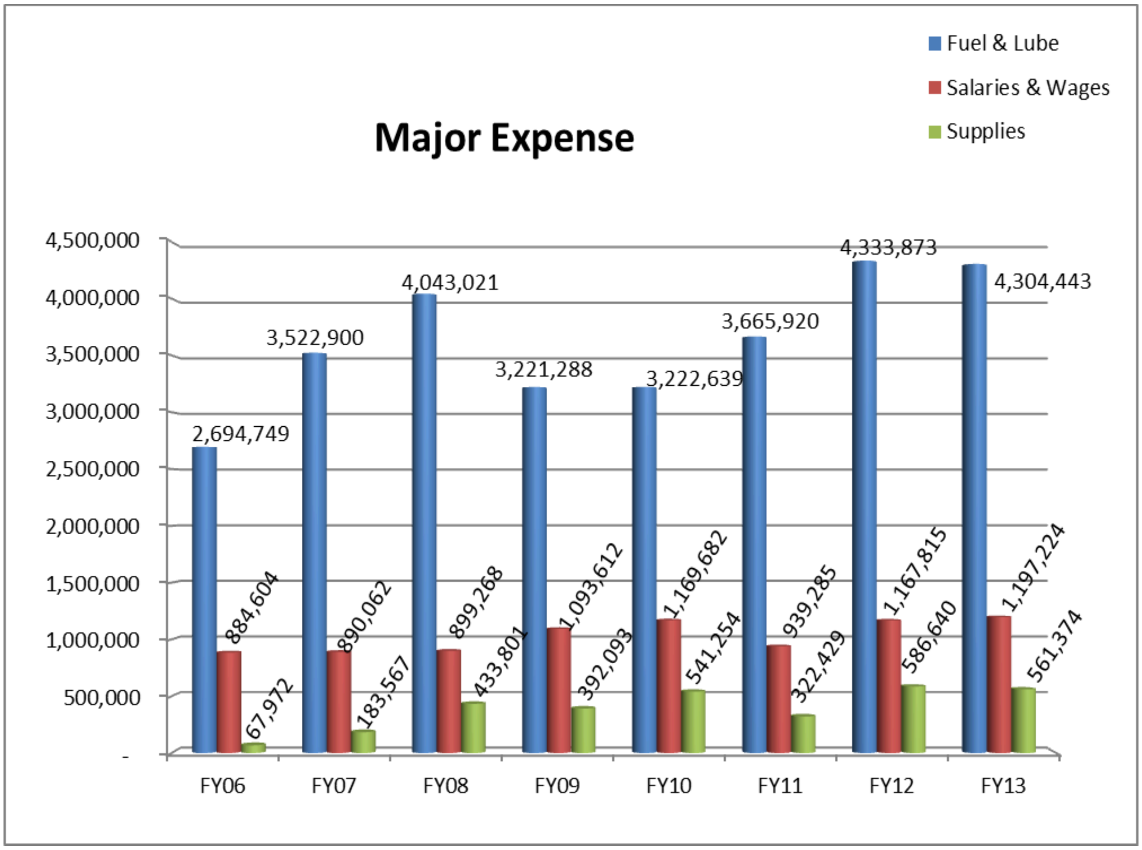
Unfortunately, revenues from freshwater and saltwater services continue to be an on-going challenge for KAJUR as higher revenue can be collected from these two revenue sources. Inconsistent freshwater and saltwater services to the community had prompted KAJUR last year to postpone its intention to apply flat rate fees to island consumers until existing pipeline and freshwater/saltwater pressure issues are resolved. In FY13, revenues for freshwater and saltwater from government and business operators decreased significantly from $361,961 in FY12 to $198,718 in FY13. This can be attributed to service payments from government and businesses which were made after the FY13 closeout date.

The graph below shows revenue trends from major components of KAJUR's operating revenues for the past four years.



Fuel and Lubricant Expense, which totaled $4,304,443, accounts for approximately seventy-one percent of KAJUR's operating expenses: the highest expense item for KAJUR in FY13. It is also worth noting that this amount represented a slight decrease of $29,430 from FY12's Fuel and Lubricant Expense due to greater engine efficiency operations. Salaries and wages for FY13 totaled $1,197,224, which represents approximately twenty percent of KAJUR's overall expense. This figure also represents a slight increase of $29,409 over FY12's Salaries and Wages Expense. This slight increase is mostly attributed to some salary realignments that were made during this period to properly align certain salaries with established organizational chart and company pay-scale. Supplies Expense decreased slightly by $24,266. Overall, major expense for KAJUR in FY13 closely resembled those of FY12 with only slight variances as shown in the Major Expense Graph below.

The graph below shows the major components of operating expenses for the past eight years.



Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in the report on the audit of KAJUR's financial statements dated May 10, 2013. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and may be obtained from the contact information below.

LONG-TERM DEBT

At September 30, 2013, 2012 and 2011, KAJUR was liable for taxes, including certain delinquent taxes, interest and penalties, payable to the Marshall Islands Social Security Administration (MISSA) in the amount of $190,512, $390,218 and $594,201, respectively. On October 12, 2007, KAJUR and MISSA entered into a promissory note agreement for the delinquent taxes. The terms of this agreement include monthly payments of $8,000, interest of 12% per annum, commencing October 31, 2007. For the years ended September 30, 2013, 2012 and 2011, KAJUR incurred interest relating to these delinquent taxes of $40,294, $36,171 and $52,070, respectively. Please refer to note 6 to the financial statements for more information on KAJUR's long-term debt.

CAPITAL ASSETS

KAJUR made no major investment in capital assets in FY13. Minor capital investment made during this period was mostly directed toward ensuring that existing systems continued to operate with spare parts readily available and ensuring that appropriate equipment are available for employees to do their jobs safely. Attempts were also made during this period to clean up KAJUR's capital inventory and get rid of certain equipment that have out-lived their life expectancy but are still active on KAJUR's inventory records.

A summary of KAJUR's capital assets for the past three years is presented below:

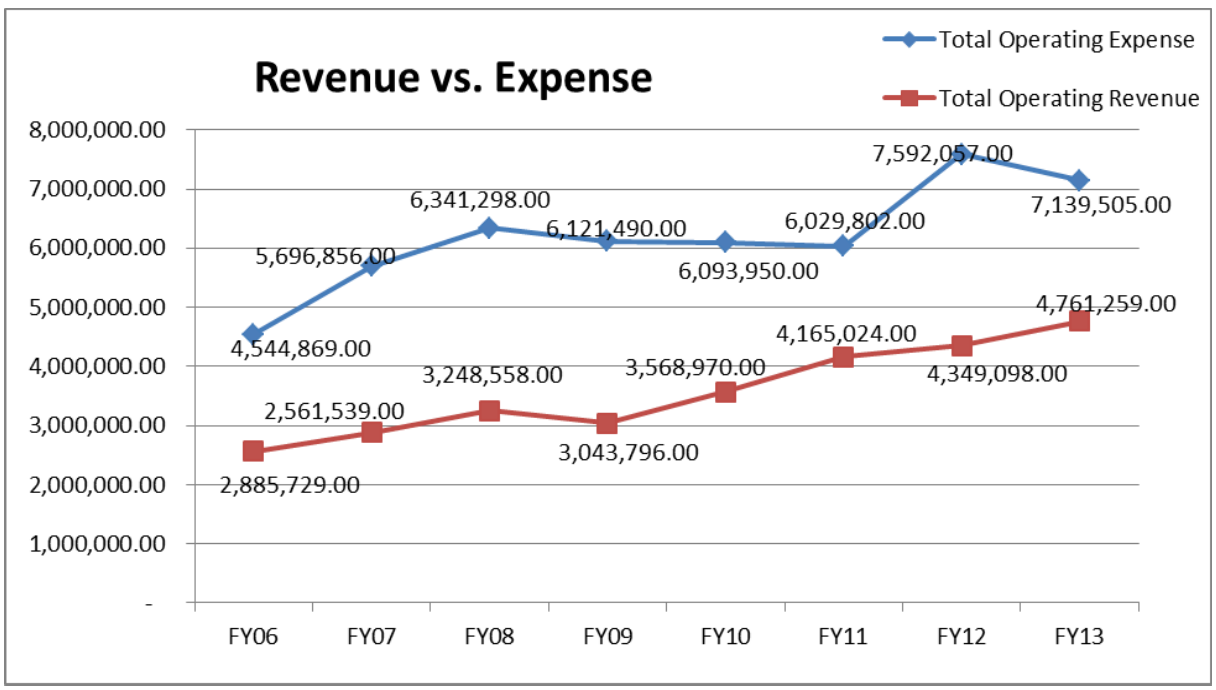
	2013	2012	2011
Plant and machinery	$ 5,204,665	$ 5,519,679	$ 5,604,266
Distribution system	1,954,168	1,954,168	2,215,325
Water System	1,228,777	1,186,932	1,192,532
Other equipment	1,924,161	1,769,637	1,741,419
	10,311,771	10,430,416	10,753,542
Less accumulated depreciation	(8,061,394)	(7,748,425)	(7,226,624)
	$ 2,250,377	$ 2,681,991	$ 3,526,918

For additional information on KAJUR's capital assets, please refer to note 5 to the accompanying financial statements.

FUTURE OUTLOOK ON SUSTAINABILITY

KAJUR's future outlook on sustainability remains bleak. To sustain its services, KAJUR continues to depend heavily on the US and RMI governments to help cover for the approximately $2.4 million gap that is needed yearly to maintain essential utility services to Ebeye and Gugeegue. With the launching of the initial phase of the Ebeye Water Storage and Sanitation Project this year, KAJUR is hopeful that KAJUR's dependency on outside assistance to maintain services to the Ebeye population will soon be over. In the meantime, KAJUR continues to invest as much as it can to replace outdated tools and equipment, and on ensuring that existing systems continue to provide for the population of Ebeye and Gugeegue while planning and design continue under Ebeye's Water Storage and Sanitation Project.

The chart below shows a clear representation of this gap between KAJUR's revenue and expense over the past eight years.



KAJUR'S FOCUS IN THE COMING FISCAL YEAR

KAJUR's focus for fiscal year 2014 will center mostly on the following primary areas:

1. *Keep Existing Systems Running*

   With the Ebeye Water Storage and Sanitation Project (PPTA Phase) now in place, KAJUR has redirect its focus away from any major system investment which were previously planned and focus primarily on ensuring spare parts are readily available to ensure existing systems (water, sewer, power) continue to operate while project planning continues to evolve.

2. *Provide Full Support for the "Ebeye" Project*

   Lend full company-wide support for the project and continually review data being collected from surveys and field works to see where KAJUR should invest its existing resources to ensure uninterrupted service to the community and even make minor improve on services where possible and affordable.

3. *Improve on Collaboration Efforts with Regional Partner Organizations*

   Maintain relationship with PPA and PWWA primarily to capitalize on collaboration and skill development opportunities.

4. *Revise and Propose New Spending Plan for approved funds for KAJUR under the Kwajalein Development Fund and Compact Capital Improvement Fund*

   In light of information we now know from survey reports and consultations with project consultants, KAJUR is now in a better position to make recommendations to the board on low scale investments which can help make small improvement to KAJUR's overall service delivery.

ADDITONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide KAJUR's customers and other interested parties with an overview of KAJUR's financial operations and financial condition. Should the reader have questions regarding the information included in this report of with to request additional financial information, please contact the Kwajalein Atoll Joint Utility Resources, Inc. Manager at P.O. Box 5819, Ebeye MH 96970.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Net Position
September 30, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash	$ 184,473	$ 320,316
Receivables:		
Utility	1,919,267	1,787,073
Affiliate	888,325	779,756
Employees	8,808	8,421
Other	102,818	88,068
	2,919,218	2,663,318
Less allowance for doubtful accounts	(2,628,484)	(2,355,204)
Total receivables, net	290,734	308,114
Prepaid expenses	60,058	86,604
Inventories	808,693	717,292
Total current assets	1,343,958	1,432,326
Non current assets:		
Deposits for capital assets acquisition	109,414	-
Capital assets, net	2,250,377	2,681,991
Total noncurrent assets	2,359,791	2,681,991
	$ 3,703,749	$ 4,114,317
LIABILITIES AND NET POSITION		
Current liabilities:		
Note payable, current portion	$ 77,298	$ 71,510
Accounts payable	2,650	18,938
Due to affiliates	2,001,772	599,829
Accrued liabilities	53,782	43,499
Unearned revenue	47,862	45,282
Total current liabilities	2,183,364	779,058
Note payable, net of current portion	113,214	318,708
Total liabilities	2,296,578	1,097,766
Contingencies		
Net position:		
Net investment in capital assets	2,250,377	2,681,991
Unrestricted	(843,206)	334,560
Total net position	1,407,171	3,016,551
	$ 3,703,749	$ 4,114,317

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Electric and service billings	$ 4,727,121	$ 4,444,876
Water	198,718	361,961
Other	108,700	252,360
Total operating revenues	5,034,539	5,059,197
Less provision for doubtful accounts	(273,280)	(710,099)
Total net operating revenues	4,761,259	4,349,098
Operating expenses:		
Fuel and lubricants	4,304,443	4,333,873
Salaries, wages and benefits	1,197,224	1,167,815
Supplies and materials	561,374	586,640
Depreciation	489,147	834,202
Operations and maintenance	208,552	287,070
Travel and transportation	179,500	78,677
Contractual services	46,255	30,279
Communications	42,545	34,756
Rental	24,079	24,079
Water purchases	-	160,074
Miscellaneous	86,386	54,592
Total operating expenses	7,139,505	7,592,057
Operating loss	(2,378,246)	(3,242,959)
Nonoperating revenues (expenses):		
Compact funding	1,000,000	2,025,000
Government of Japan grant	-	827,455
Interest expense	(40,294)	(36,171)
Loss on write-off of fixed assets	(190,840)	(55,530)
Total nonoperating revenues (expenses), net	768,866	2,760,754
Change in net position	(1,609,380)	(482,205)
Net position at beginning of year	3,016,551	3,498,756
Net position at end of year	$ 1,407,171	$ 3,016,551

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 4,781,606	$ 4,591,543
Cash payments to suppliers for goods and services	(4,132,334)	(5,784,281)
Cash payments to employees for services	(1,187,328)	(1,215,679)
Net cash used for operating activities	(538,056)	(2,408,417)
Cash flows from noncapital financing activities:		
Promissory note repayment	(199,706)	(203,983)
Interest paid	(40,294)	(36,171)
Operating subsidies received from RepMar	1,000,000	2,025,000
Government of Japan grant	-	827,455
Net cash provided by noncapital financing activities	760,000	2,612,301
Cash flows from capital and related financing activities:		
Deposits for capital assets acquisition	(109,414)	-
Acquisition and construction of capital assets	(248,373)	(44,805)
Net cash used for capital and related financing activities	(357,787)	(44,805)
Net change in cash	(135,843)	159,079
Cash at beginning of year	320,316	161,237
Cash at end of year	$ 184,473	$ 320,316
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (2,378,246)	$ (3,242,959)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	489,147	834,202
Provision for doubtful accounts	273,280	710,099
(Increase) decrease in assets:		
Receivables:		
Utility	(132,194)	(313,613)
Affiliate	(108,569)	(192,626)
Employees	(387)	(319)
Other	(14,750)	46,138
Prepaid expenses	26,546	(74,446)
Inventories	(91,401)	(21,130)
Increase (decrease) in liabilities:		
Accounts payable	(16,288)	(33,031)
Due to affiliates	1,401,943	(65,634)
Deferred revenue	2,580	(7,533)
Other current and accrued liabilities	10,283	(47,545)
Net cash used for operating activities	$ (538,056)	$ (2,408,397)

See accompanying notes to financial statements.

Statements of Cash Flows, Continued
Years Ended September 30, 2013 and 2012

	2013	2012
Noncash capital and related financing activities:		
Capital assets	$ (367,018)	$ (367,931)
Accumulated depreciation	176,178	312,401
Loss on write-off of capital assets	190,840	55,530
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

The 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 the Marshalls Energy Company, Inc., a component unit of RepMar. On July 24, 2006, the Cabinet of RepMar approved the introduction of legislation to the Nitijela (RepMar's legislature) to repeal the enabling legislation that created KADA.

KAJUR'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 as applicable to governmental entities, specifically proprietary funds.

KAJUR considers utility and nonutility revenues and costs that are directly related to utility and nonutility operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus,* and modified by Statement No. 38, *Certain Financial Statement Note Disclosures,* 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 modify certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement No. 34, 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.

- 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.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities 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 total 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

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.

Cash

Custodial credit risk is the risk that, in the event of a bank failure, KAJUR's deposits may not be returned to it. 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 assets and cash flows, cash is defined as cash on hand and cash in checking accounts. As of September 30, 2013 and 2012, the carrying amount of cash was $184,473 and $320,316, respectively, and the corresponding bank balances were $214,101 and $324,038, respectively. At September 30, 2013 and 2012, $11,312 and $11,604, respectively, were subject to Federal Deposit Insurance Corporation (FDIC) insurance. KAJUR does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

KAJUR provides electric services to government agencies, businesses and individuals located on the island of Ebeye and bills for these services on a monthly basis. The allowance for doubtful 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. The allowance is established through a provision for bad debts charged to expense. Receivables are not collateralized.

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, 2013 and 2012. Bulk fuel inventories are held for power plant use.

(2) Summary of Significant Accounting Policies, Continued

Prepayments

Certain payments to vendors or persons for goods and services reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying financial statements.

Plant and Equipment

KAJUR does not have a formal capitalization policy for plant and equipment; however, items with a cost that equals or exceeds $500 are generally capitalized at the time of acquisition. Depreciation of plant and equipment is calculated on the straight-line method based on the estimated useful lives of the respective assets, which are as follows:

Plant and machinery	20 - 25 years
Distribution system	20 - 25 years
Water system	20 - 25 years
Other equipment	5 years

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. KAJUR has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources 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.

Reclassifications

Certain balances in the 2012 presentation have been reclassified to conform to the 2013 presentation.

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 of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, sales of electricity services by public utility companies are exempt from gross revenue tax. Accordingly, KAJUR is exempt from this tax relating to gross revenue from sales of electric services.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2013, KAJUR implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of KAJUR.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of KAJUR.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of KAJUR.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of KAJUR.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) 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 not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, KAJUR believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Settled claims and losses as a result of these risks have not been considered material to the financial statements by management for the past three years.

(4) Inventories

Inventories at September 30, 2013 and 2012, consist of the following:

	2013	2012
Materials and supplies	$ 388,072	$ 425,982
Fuel	371,395	233,369
Lubricants	49,226	57,941
	$ 808,693	$ 717,292

(5) Capital Assets

Capital assets activity for the years ended September 30, 2013 and 2012 is as follows:

	2013			
	October 1, 2012	Additions and Transfers	Retirements	September 30, 2013
Plant and machinery	$ 5,519,679	$ 37,124	$ (352,138)	$ 5,204,665
Distribution system	1,954,168	-	-	1,954,168
Water system	1,186,932	41,845	-	1,228,777
Other equipment	1,769,637	169,404	(14,880)	1,924,161
	10,430,416	248,373	(367,018)	10,311,771
Less accumulated depreciation	(7,748,425)	(489,147)	176,178	(8,061,394)
	$ 2,681,991	$ (240,774)	$ (190,840)	$ 2,250,377

	2012			
	October 1, 2011	Additions and Transfers	Retirements	September 30, 2012
Plant and machinery	$ 5,604,266	$ 4,000	$ (88,587)	$ 5,519,679
Distribution system	2,215,325	-	(261,157)	1,954,168
Water system	1,192,532	-	(5,600)	1,186,932
Other equipment	1,741,419	40,805	(12,587)	1,769,637
	10,753,542	44,805	(367,931)	10,430,416
Less accumulated depreciation	(7,226,624)	(834,202)	312,401	(7,748,425)
	$ 3,526,918	$ (789,397)	$ (55,530)	$ 2,681,991

At September 30, 2013 and 2012, management of KAJUR determined that certain capital assets in the amount of $367,018 and $367,931, respectively, no longer existed. Accordingly, these capital assets were written-off resulting in a loss of $190,840 and $55,530, respectively, for the years ended September 30, 2013 and 2012.

(6) MISSA Note Payable

At September 30, 2013 and 2012, KAJUR was liable for taxes, including certain delinquent taxes, interest and penalties, payable to the Marshall Islands Social Security Administration (MISSA) in the amount of $190,512 and $390,218, respectively. On October 12, 2007, KAJUR and MISSA entered into a promissory note agreement for the delinquent taxes. The terms of this agreement include monthly payments of $8,000, interest of 12% per annum, commencing October 31, 2007. For the years ended September 30, 2013 and 2012, KAJUR incurred interest relating to these delinquent taxes of $40,294 and $36,171, respectively.

During the years ended September 30, 2013 and 2012, employer contributions incurred by KAJUR for MISSA taxes amounted to $102,866 and $97,566, respectively.

Annual repayment requirements to maturity for principal and interest are as follows:

Year ending September 30,	Principal	Interest	Total
2014	$ 77,298	$ 18,702	$ 96,000
2015	87,102	8,898	96,000
2016	26,112	578	26,690
	$ 190,512	$ 28,178	$ 218,690

Changes in long-term liabilities during the years ended September 30, 2013 and 2012 were as follows:

	Balance at October 1, 2012	Additions	Reductions	Balance at September 30, 2013	Amount due in One Year
MISSA note payable	$ 390,218	$ -	$ (199,706)	$ 190,512	$ 77,298

	Balance at October 1, 2011	Additions	Reductions	Balance at September 30, 2012	Amount due in One Year
MISSA note payable	$ 594,201	$ -	$ (203,983)	$ 390,218	$ 71,510

(7) Related Party Transactions

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

KAJUR utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions, in addition to the MISSA note payable discussed in the preceding footnote, for the years ended September 30, 2013 and 2012 and the related receivable and payable balances as of September 30, 2013 and 2012, are as follows:

	2013		
	Expenses	Receivable	Payable
Marshalls Energy Company, Inc.	$ 4,323,344	$ -	$ 1,938,345
Marshall Islands National Telecommunications Authority	42,545	13,583	225
Marshall Islands Marine Resources Authority	24,079	83,324	-
RepMar	-	739,580	8,437
Others	102,899	51,838	54,765
	$ 4,492,867	$ 888,325	$ 2,001,772

	2012		
	Expenses	Receivable	Payable
Marshalls Energy Company, Inc.	$ 4,379,509	$ 3,125	$ 539,552
Marshall Islands National Telecommunications Authority	34,756	29,341	-
Marshall Islands Marine Resources Authority	27,079	37,953	-
RepMar	-	653,858	7,848
Others	98,013	55,479	52,429
	$ 4,539,357	$ 779,756	$ 599,829

During the years ended September 30, 2013 and 2012, KAJUR received appropriations from RepMar in the amounts of $1,000,000 and $2,025,000, respectively, which were subsequently paid to vendors for the purchase of fuel and water.

On January 19, 2009, RepMar received certain grant aid from the Government of Japan to secure fuel for power generation by the Marshalls Energy Company, Inc. (MEC). The grant required MEC to repay 50% of the grant to RepMar, which requirement was fulfilled during the year ended September 30, 2012. On July 31, 2012, KAJUR applied for and received approval from the Government of Japan to utilize $827,455 in grant funds for the purpose of providing stabilization of utility tariffs through the use of grant funds for fuel purchases from MEC.

(8) Contingencies

KAJUR has incurred significant net operating losses since inception. 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.

KAJUR participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of $1,375,456 relating to fiscal years 2004 through 2006 have been set forth in KAJUR's Single Audit Report for the year ended September 30, 2012. The said accumulated questioned costs have been resolved and cleared by the grantor agency for the year ended September 30, 2013.

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.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Kwajalein Atoll Joint Utilities Resources, Inc.:

We have audited, in accordance with 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 statements of Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KAJUR's internal control over financial reporting (internal control) to determine the 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 were not identified. 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 may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies as item 2013-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KAJUR's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

KAJUR's Responses to Findings

KAJUR's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. KAJUR's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Deloitte & Touche LLP

June 10, 2014

Deloitte.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Kwajalein Atoll Joint Utilities Resources, Inc.:

Report on Compliance for Each Major Federal Program

We have audited Kwajalein Atoll Joint Utilities Resources, Inc.'s (KAJUR) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on KAJUR's one major federal program for the year ended September 30, 2013. KAJUR's 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for KAJUR's one major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 one major federal program. However, our audit does not provide a legal determination of KAJUR's compliance.

Opinion on the 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 its one major federal program for the year ended September 30, 2013.

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 its one major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its one major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of KAJUR as of and for the year ended September 30, 2013, and have issued our report thereon dated June 10, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte + Touche LLP

June 10, 2014

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

Program Title	Expenditures FY13
U.S. Department of the Interior Compact of Free Association, As Amended: Section 211(b)(2) Kwajalein Atoll Landowners Special Needs CFDA #15.875	
Power Generation, Distribution, and Maintenance	$ 1,000,000

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

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

Power Generation, Distribution, and Maintenance (included within fuel and lubricants expense of $4,304,443)	$ 1,000,000

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

1.	Type of auditors' report issued:	Unmodified
	Internal control over financial reporting:	
2.	Material weakness(es) identified?	Yes
3.	Significant deficiency(ies) identified?	No
4.	Noncompliance material to financial statements noted?	No

Federal Awards

	Internal control over major programs:	
5.	Material weakness(es) identified?	No
6.	Significant deficiency(ies) identified?	None reported
7.	Type of auditors' report issued on compliance for major programs:	Unmodified
8.	Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
9.	Identification of major programs:	

CFDA Number	Federal Program
15.875	Compact of Free Association, as Amended: Kwajalein Atoll Landowners Special Needs Kwajalein Impact Fund

10.	Dollar threshold used to distinguish between Type A and Type B Programs:	$300,000
11.	Auditee qualified as a low-risk auditee?	No

B. FINANCIAL STATEMENT FINDINGS

Reference Number	Findings	Refer Page #
2013-001	Fuel Expense	28

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings reported.

Finding No. 2013-001

Fuel Expense

Criteria: Management is responsible for establishing adequate internal control requiring that fuel expenses are accurately computed and recorded.

Condition: Tests of fuel expenses appear to reflect incorrect accounting treatment as follows:

1. Journal entries for diesel inventory revenue revealed incorrect sales reversals that recognized cost of fuel sold resulting in net revenue and fuel expense of zero. After reconciliation, a $13,332 understatement of revenue resulted.

2. One fuel purchase transaction recorded 2,000 gallons at $7.25 per gallon. However, the actual unit cost was $6.85 which resulted in a $800 understatement.

3. Upon scrutiny of fuel expense for internal use, we noted a $26,563 overstatement of expense. The variance resulted from charging fuel expense at $6.50 per gallon instead of the average actual cost of $3.90 per gallon.

4. Manual journal entries to record fuel costs lack an approver's signature that evidences appropriate independent review of the entries prior to posting.

Cause: The cause of the above condition is due to inconsistent internal control policies governing the review of journal entries.

Effect: The effect of the above condition is a potential misstatement of fuel expense and inventory.

Recommendation: We recommend KAJUR consistently review and approve journal entries and establish consistent costing methods.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Romeo Alfred, General Manager

Corrective Action: KAJUR agrees with recommendation to apply consistent practices in reviewing and approving journal entries.

Additionally, KAJUR recognizes the lack of written procedures to help guide and reinforce its internal review and approval processes and is currently developing written procedures to help establish consistent internal control.

KAJUR also recognizes other possible contributing factors to the conditions described above. These factors which are unique to KAJUR's operation included instances where KAJUR is forced to sell diesel fuel during times when the fuel station in Ebeye closes down for various reasons. It is not common for KAJUR to sell fuel so when this happens; management will need to remind customer service employees on what rate to apply and not to pull fuel rates from outdated tariff listings.

Proposed Completion Date: July 10, 2014

<u>Questioned Costs</u>

The questioned costs from prior year Single Audit report on compliance with laws and regulations amounting $1,375,456 were fully resolved as of September 30, 2013 based on the letter from US Department of Interior dated September 30, 2013.

The status of other unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 27 and 28).