

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

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

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

# KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Years Ended September 30, 2014 and 2013  
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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, 2014 and 2013, 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, 2014 and 2013, 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.

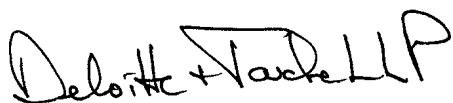
## **Other Matters**

### *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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 May 11, 2015, 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

May 11, 2015

## **KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

### **Management's Discussion and Analysis Years Ended September 30, 2014 and 2013**

The Kwajalein Atoll Joint Utilities Resources (KAJUR) was incorporated under the laws of the Republic of the Marshall Islands in September 1990. KAJUR was originally established as a private entity governed by the Kwajalein Atoll Development Authority (KADA) Board of Directors. In October 1999, RepMar and KADA awarded a two year management contract to the American Samoa Power Authority (ASPA) to assume operational control of KAJUR. This management contract was extended for an additional two years and in April of 2003, ASPA's contract expired.

In May of 2006, the RMI Cabinet officially approved the transfer of governing responsibilities for KAJUR to the RMI Combined Utility Board of Directors as a component unit of RepMar. KAJUR is currently the sole provider of electricity, potable water and sanitation services for the community of Ebeye, which also includes Gugeegue and smaller island communities connected to Ebeye by the causeway. At the closing of FY2014, KAJUR has under its employment a total of eighty one (81) employees manning all three functional elements of its operational structure.

### **FINANCIAL HIGHLIGHTS**

KAJUR continued to show noticeable improvements with its fiscal performance in spite of continuing challenges with its deteriorated infrastructure, costly mode of fuel provisioning, limited options for revenue generation, and an under-skilled local workforce managing all aspects of its service operations. Some marked improvement highlights during this period included the final settlement of KAJUR's long standing debt with MISSA; a shift from manual (paper-driven) procurement process to electronic procurement process; and a more safety conscious workforce that is better equipped with tools and equipment in comparison to previous years. For over three consecutive years, the community in Ebeye have relied primarily on their own water production system without any emergency request for assistance from the military base at Kwajalein as it was normally done in the past. "Water Jug Babies" a common term used to reference small kids from Ebeye who once crowded work ferries between Ebeye and Kwajalein to get water is a thing of the past. This positive change can be attributed to a more proactive workforce that ensures spare parts are readily available on hand when needed. For three consecutive years, KAJUR has not granted any merit pay increment to its employees. Instead, it took in fourteen (14) young graduates from Job Corps and CMI's Jitok Kapeel program and placed them in a "Job Exposure" program as the first step toward getting semi-skilled individuals to fill existing open slots and soon to be vacated positions by older employees who are approaching their retirement age.

In spite of all these highlighted accomplishments, KAJUR still faces many financial and operational challenges as noted throughout the body of this management discussion and analysis.

### **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.

## KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis, Continued  
Years Ended September 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 1,663,621	\$ 1,453,372	\$ 1,432,326
Capital assets	<u>2,127,727</u>	<u>2,250,377</u>	<u>2,681,991</u>
Total assets	<u>3,791,348</u>	<u>3,703,749</u>	<u>4,114,317</u>
Current liabilities	2,967,807	2,183,364	779,058
Non-current liabilities	<u>-</u>	<u>113,214</u>	<u>318,708</u>
Total liabilities	<u>2,967,807</u>	<u>2,296,578</u>	<u>1,097,766</u>
Net Position:			
Invested in capital assets	2,127,727	2,250,377	2,681,991
Unrestricted	<u>(1,304,186)</u>	<u>(843,206)</u>	<u>334,560</u>
Total net position	\$ <u>823,541</u>	\$ <u>1,407,171</u>	\$ <u>3,016,551</u>

As indicated above, KAJUR's capital assets decreased by \$122,650 in FY2014. Other assets actually increased by \$210,249 for an overall slight increase of \$87,599 in KAJUR's total assets for FY2014.

KAJUR made great strides this period by paying off its long standing liability (non-current) with MISSA. This is a significant accomplishment for KAJUR as this outstanding balance has been accumulating 12% interest since 2002. By October of 2007, this outstanding balance stood at \$902,057. In April of 2014, KAJUR issued its final payment of \$55,046 to essentially payoff this long outstanding balance with MISSA.

As indicated above, KAJUR also sustained a total of \$2,967,807 in liabilities in FY2014. This significant amount is due, in great part, to diesel fuel KAJUR received on credit from the Marshalls Energy Company (MEC) throughout that period.

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 the tariff at a level that is affordable to these two communities.

## KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

### Management's Discussion and Analysis, Continued Years Ended September 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
Net operating revenues	\$ 4,741,284	\$ 4,761,259	\$ 4,349,098
Non-operating revenues	<u>1,800,000</u>	<u>1,000,000</u>	<u>2,852,455</u>
Total revenues	<u>6,541,284</u>	<u>5,761,259</u>	<u>7,201,553</u>
Expenses:			
Net operating expenses	7,124,914	7,139,505	7,592,057
Non-operating expenses	<u>-</u>	<u>231,134</u>	<u>91,701</u>
Total expenses	<u>7,124,914</u>	<u>7,370,639</u>	<u>7,683,758</u>
Change in net position	\$ <u>(583,630)</u>	\$ <u>(1,609,380)</u>	\$ <u>(482,205)</u>

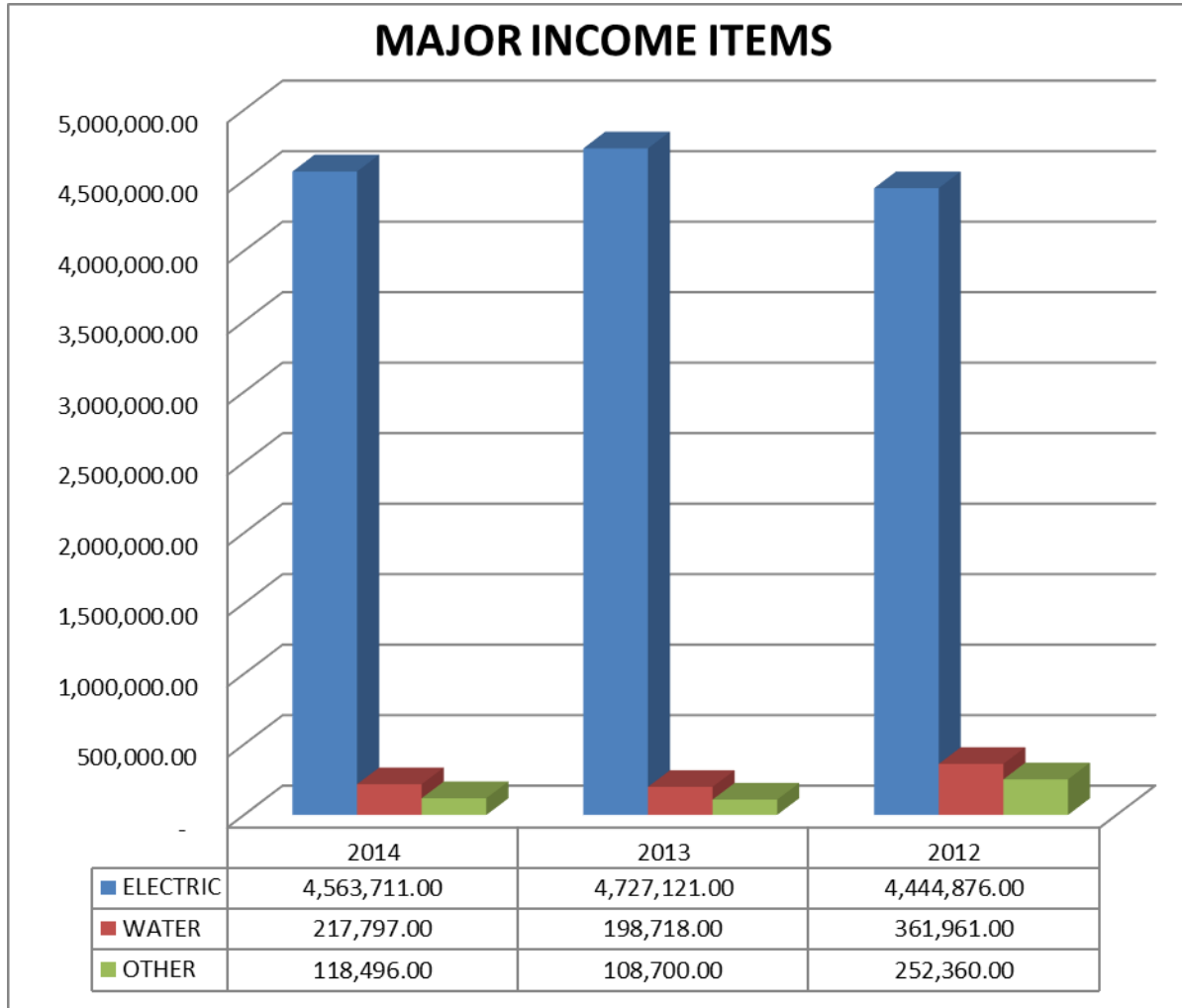
The Statement of Revenues, Expenses and Changes in Net Position identifies the various revenue and expense items that impacted change in net position. As indicated above, KAJUR's total revenues increased slightly from \$5,761,259 in FY13 to \$6,541,284 in FY14. This slight increase in total revenue can be attributed to a \$1.8 million in U.S. grant received in FY14. Within the operating revenues stream, electric billings decreased slightly from \$4,727,121 in FY13 to \$4,563,711 in FY14. Since most residential quarters are all on Pre-paid metering and most businesses are always current with their electric bills, this slight decrease in electric billing is primarily attributed to whether government agencies who are still on the conventional (post-paid) metering system were able to pay their bills before the close-out date for FY14.

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. KAJUR postponed its intention to apply flat-rate charges for potable water and saltwater in 2013 and made some effort to fix pressure and pipeline issues in these systems. Plan to start imposing flat-rate charges is now in place when FY16 starts in October 2015. In FY14, revenues for freshwater and saltwater from government and business operators increased slightly from \$198,718 in FY13 to \$217,797 in FY14.

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Management's Discussion and Analysis, Continued  
Years Ended September 30, 2014 and 2013

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



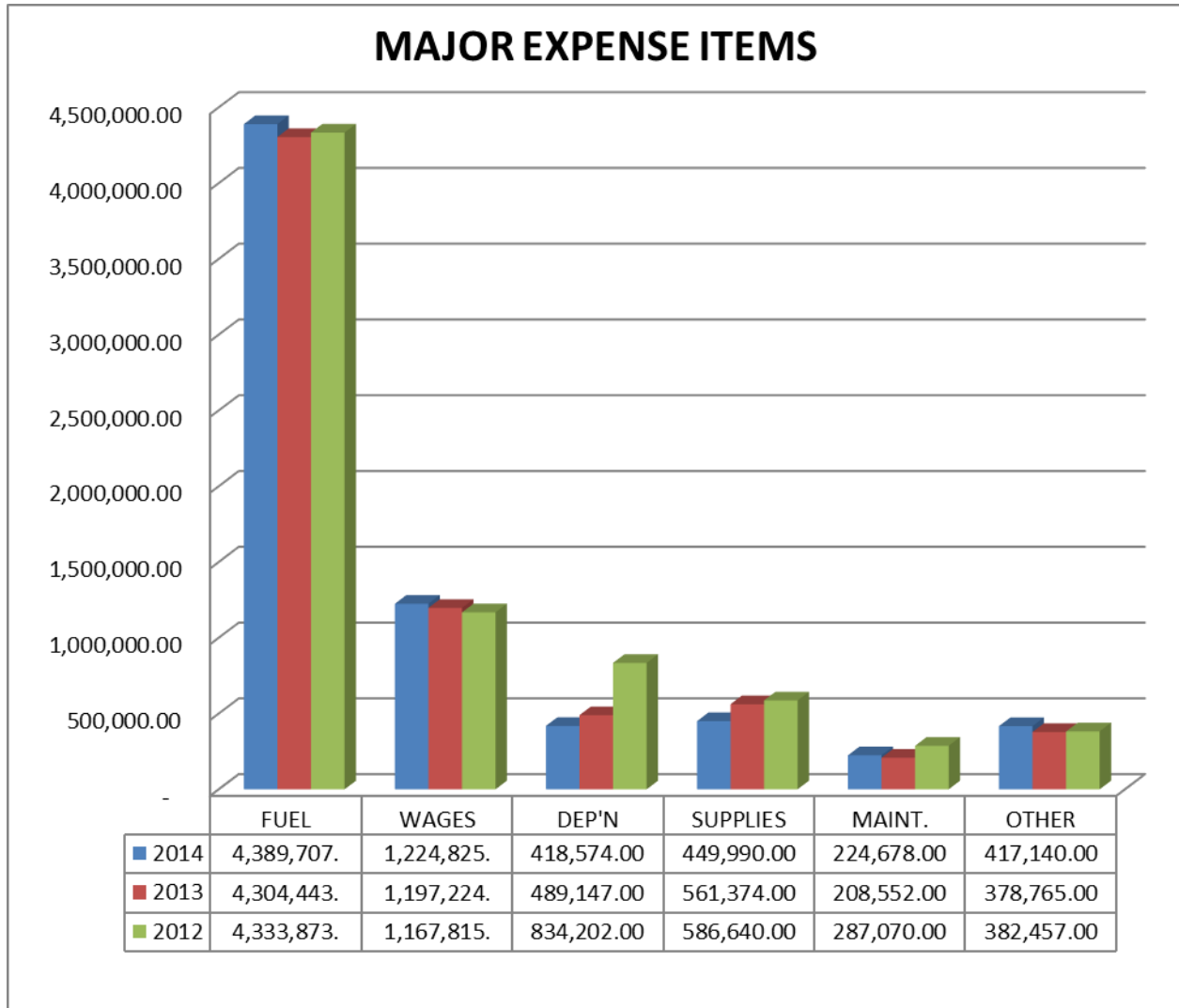
Fuel and lubricant expense for KAJUR which totalled \$4,389,707 represents a slight increase by \$85,264 over fuel expense for FY13. Fuel and lubricant expense still accounts for approximately sixty percent (60%) of KAJUR's operating expenses in FY14. Salaries and wages for FY14 totaled \$1,224,825 which represents approximately twenty percent of KAJUR's overall expense. This figure represents a slight increase of \$27,601 over salaries and wages expense for FY13. KAJUR has not awarded any merit pay increment to its employees for the past three years. Consequently, this slight increase can be attributed to new positions that KAJUR created to meet certain pre-requirements under the Ebeye Water Storage and Sanitation Project. As indicated in the chart below, supplies expense decreased slightly by \$111,384. Overall, major expense for KAJUR in FY14 closely resembled those of FY13 with only slight variances - indicative of KAJUR's effort to control cost of delivering service to the Ebeye community.



**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Management’s Discussion and Analysis, Continued  
 Years Ended September 30, 2014 and 2013

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



Management’s Discussion and Analysis for the year ended September 30, 2013 is set forth in the report on the audit of KAJUR’s financial statements dated June 10, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and may be obtained from the contact information below.

**CAPITAL ASSETS**

As in the previous year, KAJUR made no major investment in capital assets in FY14. 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 continued 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. Proper recording of equipment and equipment parts in their appropriate accounts continues to be a problematic area for KAJUR. For the upcoming fiscal year, KAJUR aims to place some emphasis on policy development and training as the way forward in addressing this deficiency.

## KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Management's Discussion and Analysis, Continued  
Years Ended September 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Plant and machinery	\$ 5,299,742	\$ 5,204,665	\$ 5,519,679
Distribution system	2,016,590	1,954,168	1,954,168
Water System	1,270,243	1,228,777	1,186,932
Other equipment	<u>1,964,346</u>	<u>1,924,161</u>	<u>1,769,637</u>
	10,550,921	10,311,771	10,430,416
Less accumulated depreciation	<u>(8,479,968)</u>	<u>(8,061,394)</u>	<u>(7,748,425)</u>
	2,070,953	2,250,377	2,681,991
Construction work in progress/ equipment in transit	<u>56,774</u>	<u>-</u>	<u>-</u>
	\$ <u>2,127,727</u>	\$ <u>2,250,377</u>	\$ <u>2,681,991</u>

### FUTURE OUTLOOK ON SUSTAINABILITY

KAJUR's future outlook on sustainability remains bleak. To sustain its services, KAJUR continues to depend on US and RMI government support to help cover for the approximately \$2.4 million gap that is needed yearly to maintain essential utility services to the Ebeye community. With the completion of the initial (PPTA) phase for the Ebeye Water Storage and Sanitation Project (Ebeye Project) this year, KAJUR is hopeful that its dependency on outside assistance to sustain its services to the community will soon be over. In the meantime, KAJUR continues to provide local resources to meet project requirements while ensuring that service to the community in all three service component areas (electric, water and sanitation) continues with minimal interruption. Additionally, the population in Gugeegue as well as other communities in smaller islands connected to Ebeye by the causeway are not included in the Ebeye Project as planned. For the coming fiscal year, KAJUR will be focusing its attention and resources on some of the utility needs for these smaller island communities.

While some improvements were highlighted in earlier parts of this discussion, much of KAJUR's mode of operation continues to be reactive in nature. This is due in great part to the deteriorated and outdated condition of its systems and infrastructure. For the coming year, KAJUR has initiated plans to upgrade its finance and procurement systems as well beefing up its efforts toward employees' skill development.

### ADDITIONAL 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 or wish 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, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash	\$ 165,370	\$ 184,473
Receivables:		
Utility	1,970,532	1,919,267
Affiliate	1,050,684	888,325
Employees	8,270	8,808
Other	116,578	102,818
	<u>3,146,064</u>	<u>2,919,218</u>
Less allowance for doubtful accounts	<u>(2,787,204)</u>	<u>(2,628,484)</u>
Total receivables, net	<u>358,860</u>	<u>290,734</u>
Prepaid expenses	<u>148,459</u>	<u>60,058</u>
Inventories	<u>846,742</u>	<u>808,693</u>
Total current assets	<u>1,519,431</u>	<u>1,343,958</u>
Non current assets:		
Deposits for capital assets acquisition	144,190	109,414
Capital assets:		
Nondepreciable capital assets	56,774	-
Other capital assets, net of accumulated depreciation	<u>2,070,953</u>	<u>2,250,377</u>
Total noncurrent assets	<u>2,271,917</u>	<u>2,359,791</u>
	<u>\$ 3,791,348</u>	<u>\$ 3,703,749</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Note payable, current portion	\$ -	\$ 77,298
Accounts payable	15,583	2,650
Due to affiliates	2,841,332	2,001,772
Accrued liabilities	58,300	53,782
Unearned revenue	<u>52,592</u>	<u>47,862</u>
Total current liabilities	2,967,807	2,183,364
Note payable, net of current portion	<u>-</u>	<u>113,214</u>
Total liabilities	<u>2,967,807</u>	<u>2,296,578</u>
Contingencies		
Net position:		
Net investment in capital assets	2,127,727	2,250,377
Unrestricted	<u>(1,304,186)</u>	<u>(843,206)</u>
Total net position	<u>823,541</u>	<u>1,407,171</u>
	<u>\$ 3,791,348</u>	<u>\$ 3,703,749</u>

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Electric and service billings	\$ 4,563,711	\$ 4,727,121
Water	217,797	198,718
Other	<u>118,496</u>	<u>108,700</u>
Total operating revenues	4,900,004	5,034,539
Less provision for doubtful accounts	<u>(158,720)</u>	<u>(273,280)</u>
Total net operating revenues	<u>4,741,284</u>	<u>4,761,259</u>
Operating expenses:		
Fuel and lubricants	4,389,707	4,304,443
Salaries, wages and benefits	1,224,825	1,197,224
Supplies and materials	449,990	561,374
Depreciation	418,574	489,147
Operations and maintenance	224,678	208,552
Travel and transportation	206,161	179,500
Communications	56,435	42,545
Contractual services	50,726	46,255
Rental	26,268	24,079
Miscellaneous	<u>77,550</u>	<u>86,386</u>
Total operating expenses	<u>7,124,914</u>	<u>7,139,505</u>
Operating loss	<u>(2,383,630)</u>	<u>(2,378,246)</u>
Nonoperating revenues (expenses):		
Compact funding	1,800,000	1,000,000
Interest expense	-	(40,294)
Loss on write-off of fixed assets	<u>-</u>	<u>(190,840)</u>
Total nonoperating revenues (expenses), net	<u>1,800,000</u>	<u>768,866</u>
Change in net position	(583,630)	(1,609,380)
Net position at beginning of year	<u>1,407,171</u>	<u>3,016,551</u>
Net position at end of year	<u>\$ 823,541</u>	<u>\$ 1,407,171</u>

See accompanying notes to financial statements.

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Statements of Cash Flows  
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,677,350	\$ 4,781,606
Cash payments to suppliers for goods and services	(4,752,997)	(4,132,334)
Cash payments to employees for services	<u>(1,222,244)</u>	<u>(1,187,328)</u>
Net cash used for operating activities	<u>(1,297,891)</u>	<u>(538,056)</u>
Cash flows from noncapital financing activities:		
Promissory note repayment	(190,512)	(199,706)
Interest paid	-	(40,294)
Operating subsidies received from RepMar	<u>1,800,000</u>	<u>1,000,000</u>
Net cash provided by noncapital financing activities	<u>1,609,488</u>	<u>760,000</u>
Cash flows from capital and related financing activities:		
Deposits for capital assets acquisition	(34,776)	(109,414)
Acquisition and construction of capital assets	<u>(295,924)</u>	<u>(248,373)</u>
Net cash used for capital and related financing activities	<u>(330,700)</u>	<u>(357,787)</u>
Net change in cash	(19,103)	(135,843)
Cash at beginning of year	<u>184,473</u>	<u>320,316</u>
Cash at end of year	<u>\$ 165,370</u>	<u>\$ 184,473</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (2,383,630)	\$ (2,378,246)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	418,574	489,147
Provision for doubtful accounts	158,720	273,280
(Increase) decrease in assets:		
Receivables:		
Utility	(51,265)	(132,194)
Affiliate	(162,359)	(108,569)
Employees	538	(387)
Other	(13,760)	(14,750)
Prepaid expenses	(88,401)	26,546
Inventories	(38,049)	(91,401)
Increase (decrease) in liabilities:		
Accounts payable	12,933	(16,288)
Due to affiliates	839,560	1,401,943
Unearned revenue	4,730	2,580
Other current and accrued liabilities	<u>4,518</u>	<u>10,283</u>
Net cash used for operating activities	<u>\$ (1,297,891)</u>	<u>\$ (538,056)</u>

See accompanying notes to financial statements.

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Statements of Cash Flows, Continued  
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Noncash capital and related financing activities:		
Capital assets	\$ -	\$ (367,018)
Accumulated depreciation	-	176,178
Loss on write-off of capital assets	-	190,840
	<u>          -</u>	<u>          -</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

## KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements  
September 30, 2014 and 2013

### (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.

## KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements  
September 30, 2014 and 2013

### (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 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 position and cash flows, cash is defined as cash on hand and cash in checking accounts. As of September 30, 2014 and 2013, the carrying amount of cash was \$165,370 and \$184,473, respectively, and the corresponding bank balances were \$169,700 and \$214,101, respectively. At September 30, 2014 and 2013, \$31,031 and \$11,312, 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. Bad debts are charged off against the allowance on the specific identification method. 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, 2014 and 2013. Bulk fuel inventories are held for power plant use.



## KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements  
September 30, 2014 and 2013

### (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.

#### 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.

## KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements  
September 30, 2014 and 2013

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards

During fiscal year 2014, KAJUR implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect 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 this statement on the financial statements of KAJUR.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of KAJUR.

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Notes to Financial Statements  
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

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, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Materials and supplies	\$ 494,060	\$ 388,072
Fuel	289,696	371,395
Lubricants	<u>62,986</u>	<u>49,226</u>
	<u>\$ 846,742</u>	<u>\$ 808,693</u>

(5) Capital Assets

Capital assets activity for the years ended September 30, 2014 and 2013 is as follows:

	<u>2014</u>			
	<u>October</u>	<u>Additions</u>	<u>Retirements</u>	<u>September</u>
	<u>1, 2013</u>	<u>and Transfers</u>		<u>30, 2014</u>
Plant and machinery	\$ 5,204,665	\$ 95,077	\$ -	\$ 5,299,742
Distribution system	1,954,168	62,422	-	2,016,590
Water system	1,228,777	41,466	-	1,270,243
Other equipment	<u>1,924,161</u>	<u>40,185</u>	-	<u>1,964,346</u>
	10,311,771	239,150	-	10,550,921
Less accumulated depreciation	<u>(8,061,394)</u>	<u>(418,574)</u>	-	<u>(8,479,968)</u>
	2,250,377	(179,424)	-	2,070,953
Construction in progress	-	<u>56,774</u>	-	<u>56,774</u>
	<u>\$ 2,250,377</u>	<u>\$ (122,650)</u>	<u>\$ -</u>	<u>\$ 2,127,727</u>

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Notes to Financial Statements  
September 30, 2014 and 2013

(5) Capital Assets, Continued

	2013			
	<u>October 1, 2012</u>	<u>Additions and Transfers</u>	<u>Retirements</u>	<u>September 30, 2013</u>
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	<u>1,769,637</u>	<u>169,404</u>	<u>(14,880)</u>	<u>1,924,161</u>
	10,430,416	248,373	(367,018)	10,311,771
Less accumulated depreciation	<u>(7,748,425)</u>	<u>(489,147)</u>	<u>176,178</u>	<u>(8,061,394)</u>
	<u>\$ 2,681,991</u>	<u>\$ (240,774)</u>	<u>\$ (190,840)</u>	<u>\$ 2,250,377</u>

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

(6) MISSA Note Payable

On April 22, 2014, KAJUR paid in full the outstanding promissory note to the Marshall Islands Social Security Administration (MISSA). At September 30, 2013, KAJUR was liable for taxes, including certain delinquent taxes, interest and penalties, payable to the MISSA in the amount of \$190,512. 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, 2014 and 2013, KAJUR incurred interest relating to these delinquent taxes of \$0 and \$40,294, respectively.

During the years ended September 30, 2014 and 2013, employer contributions incurred by KAJUR for MISSA taxes amounted to \$109,335 and \$102,866, respectively.

Changes in long-term liabilities during the years ended September 30, 2014 and 2013 were as follows:

	Balance at October 1, 2013	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, 2014	<u>Amount due in One Year</u>
MISSA note payable	\$ <u>190,512</u>	\$ <u>      -</u>	\$ <u>(190,512)</u>	\$ <u>      -</u>	\$ <u>      -</u>

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Notes to Financial Statements  
September 30, 2014 and 2013

(6) MISSA Note Payable, Continued

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

(7) Related Party Transactions

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

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. KAJUR utilizes services from certain affiliated entities at substantially more favorable terms and conditions than those provided to 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, 2014 and 2013 and the related receivable and payable balances as of September 30, 2014 and 2013, are as follows:

	<u>2014</u>		
	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 4,389,707	\$ 3,739	\$ 2,774,081
Marshall Islands National Telecommunications Authority	64,749	13,054	253
Marshall Islands Marine Resources Authority	26,268	137,515	-
RepMar	56,529	845,522	9,457
Others	<u>109,335</u>	<u>50,854</u>	<u>57,541</u>
	\$ <u>4,646,588</u>	\$ <u>1,050,684</u>	\$ <u>2,841,332</u>
	<u>2013</u>		
	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
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	<u>102,899</u>	<u>51,838</u>	<u>54,765</u>
	\$ <u>4,492,867</u>	\$ <u>888,325</u>	\$ <u>2,001,772</u>

## KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Notes to Financial Statements  
September 30, 2014 and 2013

### (7) Related Party Transactions, Continued

During the years ended September 30, 2014 and 2013, KAJUR received appropriations from RepMar in the amount of \$1,800,000 and \$1,000,000, respectively, which were subsequently paid to Marshalls Energy Company, Inc. for the purchase of fuel.

### (8) Contingencies

KAJUR has incurred losses from operations of \$2,383,630 and \$2,378,246 during the years ended September 30, 2014 and 2013, 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, in order for KAJUR to continue as a going concern, it may need to delay payments to the Marshalls Energy Company, Inc. for fuel purchases.

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. KAJUR's management believes that any liabilities for reimbursement which may arise as a result of these audits would 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.

**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, 2014, 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 May 11, 2015.

### **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. 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.

## Compliance and Other Matters

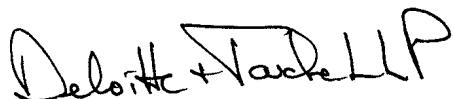
As part of obtaining reasonable assurance about whether KAJUR's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001.

## 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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

May 11, 2015



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL 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, 2014. 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, 2014.

## 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.

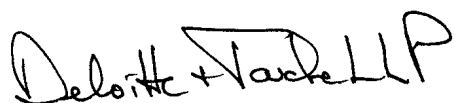
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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, 2014, and have issued our report thereon dated May 11, 2015, 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.



May 11, 2015

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2014

<u>Program Title</u>	<u>Expenditures FY14</u>
<u>U.S. Department of the Interior</u> <u>Compact of Free Association, As Amended:</u> <u>Section 211(b)(2) Kwajalein Atoll Landowners Special Needs</u> <u>CFDA #15.875</u> Power Generation, Distribution, and Maintenance	<u>\$ 1,800,000</u>

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 \$4,389,707)	<u>\$ 1,800,000</u>
--	---------------------

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2014

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

- |    |   |               |
|----|---|---------------|
| 1. | Type of auditors' report issued:                      | Unmodified    |
|    | Internal control over financial reporting:            |               |
| 2. | Material weakness(es) identified?                     | No            |
| 3. | Significant deficiency(ies) identified?               | None reported |
| 4. | Noncompliance material to financial statements noted? | Yes           |

*Federal Awards*

- Internal control over major federal programs:
- |     |   |               |
|-----|---|---------------|
| 5.  | Material weakness(es) identified?   | No            |
| 6.  | Significant deficiency(ies) identified?   | None reported |
| 7.  | Type of auditors' report issued on compliance for major federal 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 federal programs:   |               |
|     | <u>CFDA Number</u> <u>Name of Federal Program</u>   |               |
|     | 15.875    Compact of Free Association, as Amended:<br>Kwajalein Atoll Landowners Special Needs<br>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            |

**SECTION II - FINANCIAL STATEMENT FINDINGS**

<u>Reference Number</u>	<u>Findings</u>
2014-001	Local Noncompliance

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No. 2014-001

Local Noncompliance

Criteria: RepMar's Procurement Code states the following:

- a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding
- b) Section 127 - procurement of goods and services not exceeding \$25,000 may be in accordance with small purchases procedures promulgated by RepMar's Policy Office; provided, however that procurement requirements shall not be artificially divided so as to constitute a small purchase under this Section.
- c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply service, or construction item.

Condition: The purchase orders (PO) below did not undergo the competitive sealed bidding process and documentation that quotations were requested from an adequate number of qualified sources was not on file.

PO No.	PO Date	Description	PO Amount
0201	9/13/13	Materials and supplies - seawall project	\$ 51,667
0277	2/12/14	2001 Ford Diesel Bucket Truck	\$ 49,290
0329	6/16/14	2007 JLG Sky trak	\$ 33,290
0330	6/19/14	Equipment and materials - water operation	\$ 52,750
0344	8/01/14	Powerplant materials, freight, and handling fee	\$ 40,289
0345	8/01/14	Cumming spareparts and supplies	\$ 38,581
0346	8/01/14	AMPCO raw water pumps	\$ 30,607
0357	9/09/14	Materials and supplies - distribution	\$ 28,762

Cause: The cause of the above condition is a lack of adequate internal control policies and procedures demonstrating compliance with RepMar's Procurement Code.

Effect: The effect of the above conditions is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend KAJUR adhere to RepMar's Procurement Code and establish appropriate internal control policies and procedures to comply with procurement requirements. In addition, documentation should include a history of the procurement including assessment of vendor selection.

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No. 2014-001, Continued

Local Noncompliance, Continued

Auditee Response and Corrective Action Plan:

Corrective Action:

KAJUR agrees with the noncompliant nature of finding 2014-001 as stated above and in relation to the RepMar Procurement Code to which KAJUR, as a RepMar State Owned Enterprise (SOE) is required to comply with.

KAJUR also wishes to point out that a recently purchased inventory and procurement system just "went live" this year (2014) immediately after Supply, Finance and management employees went through a series of user-training programs. Proper use of the system itself will resolve the conditions described in this Finding as well as other procurement deficiencies within KAJUR. Electronic processes within our Work Flow system have replace manual (paper) procurement practices which were business norms in previous years. To further compliment this system's capability in complying with existing RepMar Procurement Code, KAJUR has sourced out a software which will allow the system to automatically send out an electronic request for price quotes to all of KAJUR's known vendors who are all stored in the system's internal database.

Relative to equipments that KAJUR acquires without going through the competitive sealed process, KAJUR now uses an on-line bidding process that is used by many companies world-wide to purchase high quality used equipments including US military surplus equipments at much competitive prices. At the time this response was formulated, KAJUR had initiated efforts to present full details of this on-line bid process to the RMI Bid Committee to see if it complies with the general intent of the RepMar Procurement Code.

Name of Contact Person: Romeo Alfred, General Manager

Proposed Completion Date: September 2015

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2014

There were no unresolved audit findings from prior year audits of KAJUR.