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, 2017 AND 2016

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Years Ended September 30, 2017 and 2016
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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, 2017 and 2016, 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.

Deloitte.

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, 2017 and 2016, 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 of 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 June 5, 2018, 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 5, 2018

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 all management 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 include Gugeegue and smaller island communities connected to Ebeye by the causeway. At the closing of FY2016, KAJUR has under its employment a total of eighty-five (85) employees manning all three functional elements of its operational structure.

FINANCIAL HIGHLIGHTS

Although KAJUR continues to face operational challenges, the delivery of utility services to its customers has remained sustainable and consistent. Capital improvement projects have taken place throughout KAJUR's departments, namely the construction of two new salt water wells and installation of two new Salt Water Reverse Osmosis units. These developments fall under the initial phases of the Ebeye Water Supply and Sanitation Project (EWSSP), which will ultimately produce and distribute more water to the community at a more energy-efficient level. There were no major disruptions in service provided.

With the help of our foreign contractors, our relatively under-skilled local workforce continues to build capacity. This cost-friendly method allows for more one-on-one on-the-job training between specialists and trainees. KAJUR is on the path to upgrade and change our business practices through policy development and capacity building across the board. KAJUR also recognizes the importance of being more technologically inclined.

KAJUR still utilizes TenderLink©, an electronic tendering system, to procure off-island goods and services. Although all off-island tendering is done electronically, most local tendering is partially paperless. We are still pushing more local vendors to register to TenderLink© so that KAJUR could fully comply with the RepMar Procurement Code, while maintaining a less time consuming and fairer procurement, supply, and accounting system.

FINANCIAL ANALYSIS OF KAJUR

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

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

	2017	2016	2015
Assets:			
Current and other assets	$ 1,613,716	$ 1,832,658	$ 1,816,568
Capital assets	5,434,009	1,913,316	2,000,780
Total assets	7,047,725	3,745,974	3,817,348
Liabilities:			
Current liabilities	3,791,509	2,602,142	2,517,617
Net Position:			
Invested in capital assets	5,434,009	1,913,316	2,000,708
Restricted	22,478	50,000	-
Unrestricted	(2,200,271)	(819,484)	(701,049)
Total net position	$ 3,256,216	$ 1,143,832	$ 1,299,731

As indicated above, KAJUR's capital assets increased by $3,520,693 in FY2017, as KAJUR started procuring more assets, mostly under the EWSSP. On the other hand, current and other assets decreased by $218,942. Overall, you will find an increase of $3,301,751 in total assets for FY2017.

By the closing of FY2017, current liabilities equaled $3,791,509 due in great part to diesel fuel received on credit from the Marshalls Energy Company (MEC) throughout this period. This is the only major liability KAJUR incurred during this period. As in the previous years, KAJUR continues to hold good credit standing with local vendors, service providers, and international suppliers.

The RMI government continues to allocate funds from US Compact to support KAJUR's power plant operations and other utility services. Through this, KAJUR is able to meet fuel requirements for power generation and spare parts for its water and sanitation services while maintaining tariff rates at levels that are well below cost, affordable to customers.

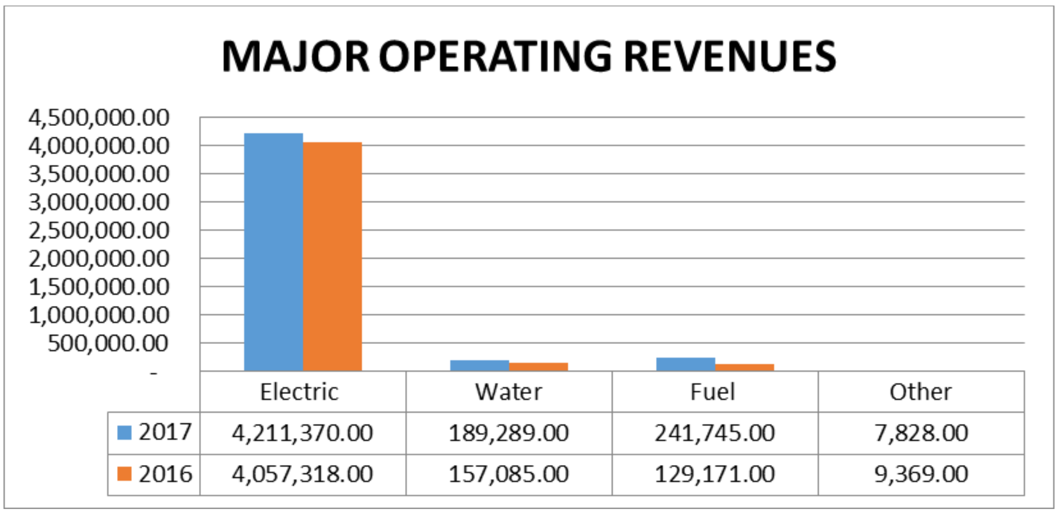
A comparative summary of KAJUR's Statement of Revenues, Expenses, and Changes in Net Position is presented below:

	2017	2016	2015
Revenues:			
Net operating revenues	$ 4,366,109	$ 4,159,744	$ 4,086,044
Non-operating revenues	1,327,860	1,377,860	2,629,764
Capital contributions	3,213,670	-	-
Total revenues	8,907,639	5,537,604	6,715,808
Expenses:			
Net operating expenses	6,697,820	5,693,503	6,219,406
Non-operating expenses	97,435	-	20,212
Total expenses	6,795,255	5,693,503	6,239,618
Change in net position	$ 2,112,384	$ (155,899)	$ 476,190

The Statement of Revenues, Expenses, and Changes in Net Position identifies the various revenue and expense items that impact change in net position. As indicated above, total revenue increased by $3,370,035 from FY2016. KAJUR received capital contributions of $3,213,670, electricity sales increased by $154,052, as well as fuel sales by $112,574.

KAJUR is still looking into initiating a flat rate charge for the provision of water and saltwater through the public pipeline. Studies still have to be done to ensure reliable service to the customer at an affordable and sustainable rate. Water and sanitation services remain free of charge to the public. However, government and commercial customers are on metered service lines, and are billed monthly. $189,289 was collected for water services in FY2017 – a slight increase from the year prior.

The graph below comparatively illustrates the major components of operating revenues for FY2016 and FY2017:

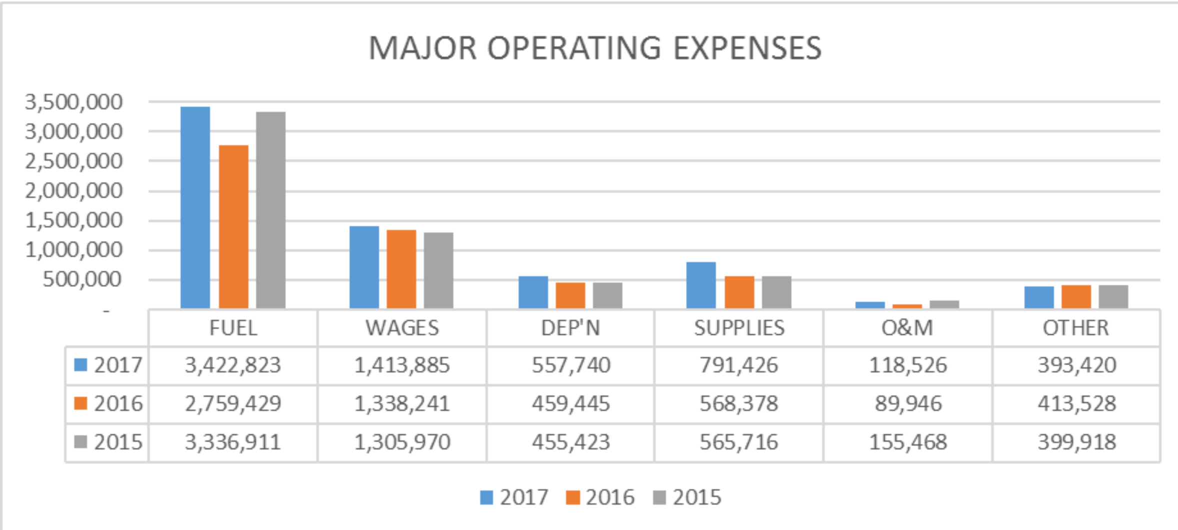


Referencing the Major Expense Items graph below, it is evident that fuel and lubricants expense remains the highest expense item in FY2017. It represents 51% of the overall operating expense for FY2017, which is an increase compared to the previous fiscal year.

Salaries and wages is the second-highest expense item in FY2017, which has slightly increased from the previous year. In FY2016, Board approved a salary and wage merit-based increase for the FY2017. Through a highly selective and scored selection process, chosen employees possess adequate skills, education, and experience.

In conclusion, fuel and lubricants continue to be the only expense item with notable variance over the past three years. All other major operating expense components were predictable and had moderate variance. KAJUR continues to explore ways to reduce high overhead cost and high dependency on fossil fuel, such as the use of Renewable Energy.

The graph below shows a comparative analysis of major operating expense components for FY2017 and the preceding two years:



CAPITAL ASSETS

KAJUR made several investments in capital assets during FY2017 under the EWSSP, through the construction work in progress and equipment in transit. There is a difference of $3,520,693 from FY2016.

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

	2017	2016	2015
Plant and machinery	$5,405,697	$5,378,323	$5,299,742
Distribution system	2,134,149	2,056,634	2,016,590
Water system	1,965,890	1,635,775	1,427,924
Other equipment	2,324,248	2,166,208	2,120,703
	11,829,984	11,236,940	10,864,959
Less accumulated depreciation	(9,834,004)	(9,380,398)	(8,920,953)
	1,995,980	1,856,542	1,944,006
Construction work in progress/ equipment in transit	3,438,029	56,774	56,774
	$5,434,009	$1,913,316	$2,000,780

During the year ended September 30, 2017, KAJUR was the recipient of capital contributions in the amount of $3,213,670 associated with the Ebeye Water Supply and Sanitation Project for the construction of Salt Water Reverse Osmosis (SWRO) equipment. The SWRO equipment was commissioned on October 7, 2017.

Please refer to note 5 to the accompanying financial statements for additional information regarding KAJUR's capital assets.

Management's Discussion and Analysis for the year ended September 30, 2016 is set for in the report on the audit of KAJUR's financial statements dated April 10, 2017. That Discussion and Analysis explains the major factors impacting the FY 2016 financial statements and may be obtained from the contact information below.

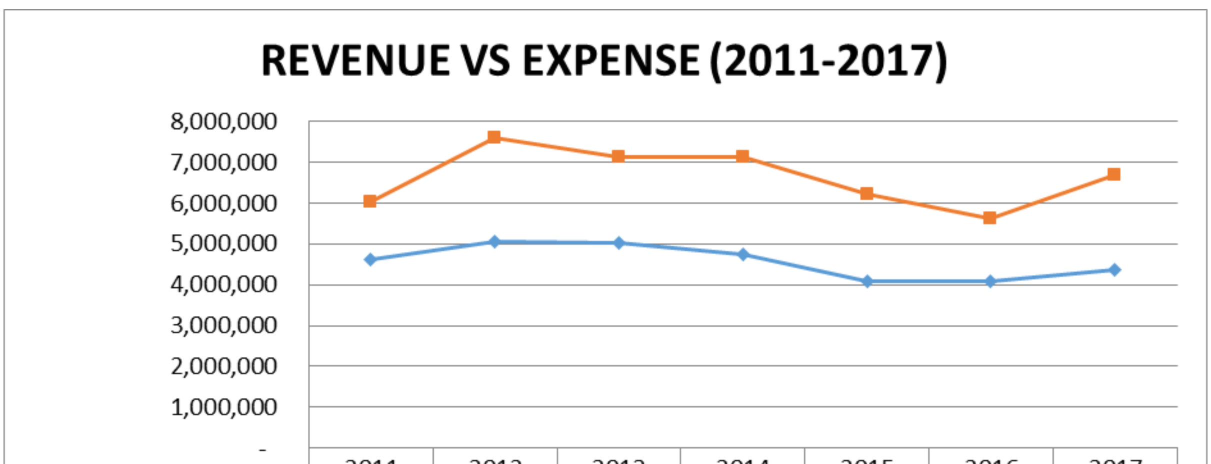
FUTURE OUTLOOK ON SUSTAINABILITY

KAJUR continues to make small but notable progress in improving quality of life for the community of Ebeye. Long-term planning continues to shape a more optimistic future for KAJUR. Less people are retrieving drinking water from Kwajalein now that the SWRO plant is producing more clean drinking water. Power outages are sporadic and last less than an hour. Despite these improvements, sustainability remains an issue to resolve.

Like most utility companies in the region, the cost of fuel continues to be the primary determining factor relative to affordability and sustainability of KAJUR's utility services. Ebeye's remote location and limited resources are also limiting its ability to adequately address many of its operational challenges.

KAJUR's operational data clearly shows that there continues to be a substantial gap between operating revenue and operating expense – a clear indication that KAJUR continues to operate at a substantial loss. For the foreseeable future, KAJUR will continue to look to the government to subsidize the operational loss.

The chart below shows a clear representation of the gap between revenue and expense over a span of seven years:



	2011	2012	2013	2014	2015	2016	2017
MAJOR REVENUE	4,617,489	5,059,197	5,034,539	4,741,284	4,086,044	4,095,208	4,366,109
MAJOR EXPENSE	6,029,802	7,592,057	7,139,505	7,124,914	6,219,406	5,628,967	6,697,820

As indicated in the chart above, over a period of seven years, KAJUR's yearly loss averages to little under $2M. Major contributing factors to these yearly losses include high fuel costs and water and saltwater services provided free of charge. To help offset this operational gap, KAJUR continues to seek financial assistance from the US and RMI governments.

To further reduce the loss, KAJUR is developing a long-term plan of utilizing renewable energy. KAJUR remains vigilant to exploring short-term methods to reduce costs associated with power generation and distribution. These include an existing plan to systematically retrofit appliances with energy efficient household appliances through the use of an energy efficiency revolving fund and supported by local ordinances to ban energy inefficient appliances from Kwajalein Atoll. KAJUR continues to work with the local government and business community toward implementing this effort FY2018.

KAJUR'S FOCUS IN THE COMING FISCAL YEAR

The following are KAJUR's goals for the coming fiscal year 2018:

1) Continue to strengthen KAJUR's organizational structure so it can withstand additional strain on its resources with the implementation of the Ebeye Water Supply and Sanitation Project.
2) Secure KAJUR's Energy Efficiency Revolving Fund.
3) Continue to work with the Board and Kwajalein leadership to identify cheaper means of transporting fuel for the Ebeye power plant.
4) Complete reconfiguration of the fuel pipeline layout, fuel metering systems, and replacement of a settling tank at the power plant.
5) Continue to strengthen KAJUR's benchmarking efforts.
6) Strengthen fuel and material inventory within KAJUR's supply system.
7) Strengthen KAJUR's Supply and Procurement department.

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 wishes 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, 2017 and 2016

ASSETS	2017	2016
Current assets:		
Cash	$ 398,277	$ 326,321
Receivables:		
Utility	2,180,568	2,032,786
Affiliate	1,137,745	1,231,329
Due from grantor	212,449	10,968
Due from related party	131,968	24,578
Employees	7,784	7,512
Other	150,136	160,447
	3,820,650	3,467,620
Less allowance for doubtful accounts	(3,323,074)	(3,038,951)
Total receivables, net	497,576	428,669
Prepaid expenses	149,430	385,910
Inventories	538,412	691,758
Total current assets	1,583,695	1,832,658
Deposits for capital assets acquisition	30,021	-
Capital assets:		
Nondepreciable	3,438,029	56,774
Other capital assets, net of accumulated depreciation	1,995,980	1,856,542
Total noncurrent assets	5,464,030	1,913,316
	$ 7,047,725	$ 3,745,974
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 75,026	$ 53,167
Due to affiliates	3,619,001	2,454,137
Accrued liabilities	30,323	28,782
Unearned revenue	67,159	66,056
Total current liabilities	3,791,509	2,602,142
Contingencies		
Net position:		
Net investment in capital assets	5,434,009	1,913,316
Restricted	22,478	50,000
Unrestricted	(2,200,271)	(819,484)
Total net position	3,256,216	1,143,832
	$ 7,047,725	$ 3,745,974

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, 2017 and 2016

	2017	2016
Operating revenues:		
Electric and service billings	$ 4,211,370	$ 4,057,318
Water	189,289	157,085
Fuel Sales	241,745	129,171
Other	7,828	9,369
Total operating revenues	4,650,232	4,352,943
Less provision for doubtful accounts	(284,123)	(193,199)
Total net operating revenues	4,366,109	4,159,744
Operating expenses:		
Fuel and lubricants	3,422,823	2,823,965
Salaries, wages and benefits	1,413,885	1,338,241
Supplies and materials	791,426	568,378
Depreciation	557,740	459,445
Travel and transportation	163,906	144,769
Operations and maintenance	118,526	89,946
Contractual services	62,080	55,623
Communications	32,465	46,336
Insurance	26,268	32,136
Rental	16,536	26,268
Miscellaneous	92,165	108,396
Total operating expenses	6,697,820	5,693,503
Operating loss	(2,331,711)	(1,533,759)
Nonoperating revenues (expenses):		
Compact funding	1,327,860	1,327,860
Grant income	-	50,000
Loss on write-off of capital assets	(97,435)	-
Total nonoperating revenues (expenses), net	1,230,425	1,377,860
Capital contributions	3,213,670	-
Change in net position	2,112,384	(155,899)
Net position at beginning of year	1,143,832	1,299,731
Net position at end of year	$ 3,256,216	$ 1,143,832

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	$ 4,213,085	$ 4,237,392
Cash payments to suppliers for goods and services	(3,152,678)	(3,904,040)
Cash payments to employees for services	(1,409,584)	(1,356,932)
Net cash used for operating activities	(349,177)	(1,023,580)
Cash flows from noncapital financing activities:		
Operating subsidies received from RepMar	1,327,860	1,327,860
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(906,727)	(323,731)
Net change in cash	71,956	(19,451)
Cash at beginning of year	326,321	345,772
Cash at end of year	$ 398,277	$ 326,321
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (2,331,711)	$ (1,533,759)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	557,740	459,445
Provision for doubtful accounts	284,123	193,199
(Increase) decrease in assets:		
Receivables:		
Utility	(147,782)	(75,335)
Affiliate	93,584	61,057
Employees	(272)	680
Other	(384,052)	(44,003)
Prepaid expenses	236,480	(203,969)
Inventories	153,346	34,580
Increase (decrease) in liabilities:		
Accounts payable	21,859	28,849
Due to affiliates	1,164,864	72,710
Unearned revenue	1,103	7,266
Other current and accrued liabilities	1,541	(24,300)
Net cash used for operating activities	$ (349,177)	$ (1,023,580)

See accompanying notes to financial statements.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Statements of Cash Flows, Continued
Years Ended September 30, 2017 and 2016

	2017	2016
Noncash capital and related financing activities:		
Capital assets	3,213,670	-
Capital contributions	(3,213,670)	-
	$ -	$ -
Capital assets	$ -	$ 48,250
Deposits for capital assets acquisition	-	(48,250)
	$ -	$ -
Capital assets	$ (201,569)	$ -
Accumulated depreciation	104,134	-
Loss on write-off of capital assets	97,435	-
	$ -	$ -
Noncash noncapital financing activities:		
Receivable from affiliate	$ -	$ 50,000
Grant income	-	(50,000)
	$ -	$ -

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 is governed by a seven-member RMI Combined Utilities Board of Directors appointed by the Cabinet of RepMar. The RMI Combined Utilities Board of Directors also have governance over the Marshalls Energy Company, Inc. and the Majuro Water and Sewer Company, Inc., which are component units of RepMar.

KAJUR's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of KAJUR conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities, specifically proprietary funds.

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*, amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus,* GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* and GASB Statement No. 61. *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*, establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and 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* consists of capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.

- *Restricted net position* results when constraints are placed on net position use that either is externally imposed by creditors, grantors, contributors, and the like, or imposed by law.

- *Unrestricted net position* consists of net position, which 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.

(2) Summary of Significant Accounting Policies, Continued

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

Basis of Accounting

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

Revenue Recognition

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. 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, 2017 and 2016, the carrying amount of cash was $398,277 and $326,321, respectively, and the corresponding bank balances were $400,239 and $346,537, respectively. Of the bank balances, $24,580 and $69,212, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FIDC) insurance. Bank deposits of $375,659 and $277,325, respectively, are maintained in financial institutions not subject to depository insurance. As of September 30, 2017 and 2016, bank deposits in the amount of $24,580 and $69,212, respectively, were subject to FDIC insurance. KAJUR does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

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.

(2) Summary of Significant Accounting Policies, Continued

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, 2017 and 2016. Bulk fuel inventories are held for power plant use.

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 using 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 represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. KAJUR has no items that qualify for reporting in this category.

Deferred Inflows of Resources

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

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, water and sewer services by public utility companies are exempt from gross revenue tax. Accordingly, KAJUR is exempt from gross revenue tax on the sale of electric, water and sewer services.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. These reclassifications had no impact on operating loss, net position or cash flows as previously reported.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2017, KAJUR implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

Estimates

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

(3) Risk Management

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

(4) Inventories

Inventories at September 30, 2017 and 2016, consist of the following:

	2017	2016
Materials and supplies	$ 433,059	$ 539,886
Fuel	66,243	116,228
Lubricants	39,110	35,644
	$ 538,412	$ 691,758

(5) Capital Assets

Capital asset activity for the years ended September 30, 2017 and 2016 are as follows:

	2017			
	October 1, 2016	Additions and Transfers	Retirements	September 30, 2017
Plant and machinery	$ 5,378,323	$ 58,317	$ (30,943)	$ 5,405,697
Distribution system	2,056,634	167,797	(90,282)	2,134,149
Water system	1,635,775	410,459	(80,344)	1,965,890
Other equipment	2,166,208	158,040	-	2,324,248
	11,236,940	794,613	(201,569)	11,829,984
Less accumulated depreciation	(9,380,398)	(557,740)	104,134	(9,834,004)
	1,856,542	236,873	(97,435)	1,995,980
Construction in progress	56,774	3,381,255	-	3,438,029
	$ 1,913,316	$ 3,618,128	$ (97,435)	$ 5,434,009

	2016			
	October 1, 2015	Additions and Transfers	Retirements	September 30, 2016
Plant and machinery	$ 5,299,742	$ 78,581	$ -	$ 5,378,323
Distribution system	2,016,590	40,044	-	2,056,634
Water system	1,427,924	207,851	-	1,635,775
Other equipment	2,120,703	45,505	-	2,166,208
	10,864,959	371,981	-	11,236,940
Less accumulated depreciation	(8,920,953)	(459,445)	-	(9,380,398)
	1,944,006	(87,464)	-	1,856,542
Construction in progress	56,774	-	-	56,774
	$ 2,000,780	$ (87,464)	$ -	$ 1,913,316

During the year ended September 30, 2017, management of KAJUR determined that certain capital assets in the amount of $201,569 no longer existed. Accordingly, these capital assets were written-off resulting in a loss of $97,435.

(5) Capital Assets, Continued

During the year ended September 30, 2017, KAJUR was the recipient of capital contributions in the amount of $3,213,670 associated with the Ebeye Water Supply and Sanitation Project for the construction of Salt Water Reverse Osmosis (SWRO) equipment. The SWRO equipment was commissioned on October 7, 2017.

(6) 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 for the years ended September 30, 2017 and 2016 and the related receivable and payable balances as of September 30, 2017 and 2016, are as follows:

	2017		
	Expenses	Receivables	Payables
Marshalls Energy Company, Inc.	$ 3,358,793	$ 53,445	$ 3,516,291
Marshall Islands National Telecommunications Authority	32,465	780	3,259
Marshall Islands Marine Resources Authority	26,268	214,531	1,521
RepMar	-	824,456	18,372
Others	133,822	44,533	79,558
	$ 3,551,348	$ 1,137,745	$ 3,619,001

	2016		
	Expenses	Receivables	Payables
Marshalls Energy Company, Inc.	$ 2,697,830	$ 60,213	$ 2,365,958
Marshall Islands National Telecommunications Authority	46,336	11,920	3,299
Marshall Islands Marine Resources Authority	26,268	188,678	-
RepMar	12,247	929,370	19,434
Others	121,680	41,148	65,446
	$ 2,904,361	$ 1,231,329	$ 2,454,137

During each of the years ended September 30, 2017 and 2016, KAJUR received $1,327,860 of appropriations from RepMar in cash which were subsequently paid to Marshalls Energy Company, Inc. for the purchase of fuel.

During the years ended September 30, 2017 and 2016, KAJUR generated fuel sales of $149,429 and $78,961, respectively, from a local company in which a Board member has share ownership. As of September 30, 2017 and 2016, receivables due from this related party total $131,968 and $24,578, respectively.

(6) Related Party Transactions, Continued

On October 26, 2015, RepMar entered into a sub-grant agreement with the International Union for Conservation of Nature and Natural Resources, in which the Ministry of Resources and Development will manage all the necessary works needed to facilitate the implementation of the MEC and KAJUR Power Plants Fuel and Waste Oil Management System Upgrade Phase 1. During the year ended September 30, 2016, KAJUR received $50,000 under this grant agreement. During the year ended September 30, 2017, KAJUR incurred expenditures of $27,522 associated with this grant. As of September 30, 2017 and 2016, the amount of $22,478 and $50,000, respectively, is restricted within net position.

(7) Contingencies

KAJUR has incurred losses from operations of $2,331,711 and $1,533,759 during the years ended September 30, 2017 and 2016, 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 liabilities, if any, for reimbursement which may arise as a result of these audits will not be material to the financial position of KAJUR.

In the ordinary course of business, claims have been filed against KAJUR. Management does not believe that the plaintiffs will prevail and the ultimate outcome is currently not determinable. Therefore, no provision has been recorded in the accompanying financial statements for losses, if any, that may result.

(8) Capital Contributions

On October 13, 2015, the Asian Development Bank (ADB) approved two grants (Grant Nos. 0438-RMI and 0439-RMI) to RepMar in the aggregate amount of $9,000,000 for the Ebeye Water Supply and Sanitation Project. Simultaneously, the ADB entered into a project agreement with KAJUR for the purpose of implementing the Project by improving water and sanitation systems on Ebeye. The grant agreements required that the grant proceeds be made available to KAJUR for the purpose of financing expenditures of the Project. During the year ended September 30, 2017, certain Project capital expenditures were incurred under the following funding sources:

Grant No. 0438-RMI (ADB)	$ 1,038,015
Grant No. 0439-RMI (Government of Australia)	829,127
RepMar	1,346,528
	$ 3,213,670

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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 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, 2017, 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, which collectively comprise KAJUR's basic financial statements, and have issued our report thereon dated June 5, 2018.

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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001, 2017-002 and 2017-004, which we consider to be material weaknesses.

Deloitte.

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 2017-003.

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 5, 2018

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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 THE UNIFORM GUIDANCE

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 Compliance Supplement* that could have a direct and material effect on KAJUR's major federal program for the year ended September 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for KAJUR's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about KAJUR's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the 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 major federal program for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of KAJUR is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered KAJUR's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of KAJUR's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of KAJUR as of and for the year ended September 30, 2017, and have issued our report thereon dated June 5, 2018, 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 the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLP

June 5, 2018

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

Program Title	Expenditures FY17
U.S. Department of the Interior:	
CFDA #15.875	
Compact of Free Association, As Amended,	
Section 211(b)(2) Kwajalein Atoll Landowners Special Needs	
Power Generation, Distribution, and Maintenance	$ 1,327,860

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 $3,422,823)

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?	No

Identification of major federal programs:

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

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

Reference Number	Findings
2017-001	Accounts Receivable
2017-002	Materials and Supplies Inventory
2017-003	Local Noncompliance
2017-004	Prepayments

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

Finding No. 2017-001

Accounts Receivable

Criteria: Timely collection of accounts receivables should be monitored to maximize collections and minimize future losses.

Condition:

a. As of September 30, 2017, electric trade receivables aggregated $2,194,308. Of this amount, $675,809 has been outstanding for in excess of a year. Fifteen accounts comprise 80% of this total. Receivable aging was not properly performed.

b. Certain customers continue to receive utility services without resolution of long outstanding balances.

c. Outstanding balances from diesel fuel sales at September 30, 2017 amounted to $211,455. Due to insufficient collection, a full allowance was provided. Of that total, $131,968 is due from a single customer.

d. During the year, KAJUR management decreased the selling price to a related party, from the published price of $6.50 per gallon to $4.61 per gallon. No written documentation was available to support approval of this price change.

e. During the year, KAJUR paid several travel expenses on behalf of officers of a certain unaffiliated organization. At September 30, 2017, the outstanding balance due from this entity amounted to $12,686. This amount has not been billed or collected.

Cause: The cause of the above condition is a lack of adequate internal control policies and procedures that facilitate timely collections. In addition, a formal policy has not been implemented to standardize customer collections, which involve long outstanding receivables. Furthermore, KAJUR lacks mitigating measures including entering into collection agreements to recover long outstanding receivables.

Effect: The effect of the condition is potential limitations on KAJUR’s cash flows and potential losses due to collectability.

Identification as a Repeat Finding: Finding 2016-001 and 2015-001.

Recommendation: We recommend KAJUR adopt internal control policies and procedures to recover long outstanding receivables and to minimize potential losses from noncollection. In addition, we recommend KAJUR implement effective collection measures or enter into collection agreements with customers that have long outstanding balances.

Auditee Response and Corrective Action Plan: KAJUR agrees with this finding and recommendation, as well as the cause for the condition identified in this finding. KAJUR will discuss collection agreements with customers with outstanding bills. Internal policies and procedures will be created to ensure timely recording and collection.

Corrective Action:

1. See final resolution to outstanding electric bill that are still under dispute.
2. Adopt internal control policies and procedures.

Finding No. 2017-002

Materials and Supplies Inventory

Criteria: Materials and supplies inventory should be periodically reviewed for accuracy and ongoing performance.

Condition: A $314,152 year-end adjustment of materials and supplies inventory resulted from a reconciliation of actual inventory on hand. a) Materials and supplies were not supported with issuance tickets. b) Prepaid inventory is not correctly recorded and is not timely monitored. c) Approved work orders are not always prepared prior to inventory requests. d) Several inventory issuance tickets did not include issuer and receiver signatures to evidence authorized issuance and acknowledged inventory receipts.

Cause: The cause of the above condition is due to ineffective internal controls over monitoring, reconciliation, and recording inventory transactions.

Effect: A significant number of year-end reconciling adjustments and a potential loss of materials and supplies result from this condition.

Identification as a Repeat Finding: Finding 2016-002.

Recommendation: We recommend KAJUR perform periodic reconciliation of materials and supplies inventory. Adequate review of journal entries is also recommended.

Auditee Response and Corrective Action Plan: KAJUR agrees with this finding and its prescribed recommendations. Certain elements within KAJUR's physical work environment will also need to improve to compliment the recommendation prescribed above. These include properly reviewing and reconciling the materials and supplies inventory on a routine basis.

Corrective Action:

1. Develop internal control policies and procedure to ensure regular review of journal entries.

Finding No. 2017-003

Local Noncompliance

Criteria: RepMar 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:

a. KAJUR does not have a formal procurement policy that requires procurement rationale be documented and be maintained in file. Additionally, competitive procurement was not determinable for various expenditures tested that occurred during the year.

b. During the year, KAJUR was a signatory to an independent technical review service for an ongoing water supply and sanitation project. The initial cost of the service agreement was $49,040. However, effective October 12, 2017, the service fee increased to $73,880. Documentation was not available to support compliance with the above criteria.

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

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

Identification as a Repeat Finding: Finding 2016-003, 2015-003 and 2014-001.

Recommendation: We recommend KAJUR adhere to RepMar's Procurement Code. In addition, competitive procurement rationale should be documented and be maintained in file.

Auditee Response and Corrective Action Plan: KAJUR agrees with this finding and the listed recommendations. KAJUR concurs that to resolve this issue, internal control policies and procedures, in compliance with RepMar’s Procurement Code need to be created and enforced. This will improve the documentation, ensuring transparency and satisfactory operation.

KAJUR will continue to use TenderLink©, an online procurement facilitator that link buyers and suppliers throughout the world, to competitively procure goods and services. TenderLink© also ensures proper documentation and history of procurement, including assessment of the vendor’s selection as well as procuring items and services in a timely fashion.

With advice from our Governing Board, KAJUR sought out service from a firm to conduct an independent technical review for the ongoing water supply and sanitation project. As this was the first time an ITR had been conducted for KAJUR, we were unaware of the pricing scheme for the service. We will ensure compliancy by setting all terms prior to signing our agreement and saving all documentation for future records.

Finding No. 2017-003

Local Noncompliance

Auditee Response and Corrective Action Plan:, Continued

Corrective Action:

1) Establish and enforce internal control policies and procedures in compliance with RepMar's Procurement Code.
2) Continue to utilize TenderLink© to ensure transparency and compliancy to RepMar's Procurement Code.

Finding No. 2017-004

Prepayments

Criteria: Prepayments should be monitored and be timely reconciled. Information maintained by the warehouse department relating to received items and in the accounting system should be reconciled.

Condition:

a. KAJUR recorded a post-closing adjustment to record $333,486 of prepayments. However, $242,863 of the post-closing adjustment lacks a receiving report to establish the date of the receipt of the goods or services. Prepayments are not timely monitored.

b. As of September 30, 2017, 41% or approximately $61,592 is aged over 180 days.

c. KAJUR lacks receiving reports to support that prepaid purchases have been received.

Cause: Prepayments are not monitored.

Effect: Significant proposed audit adjustments and a potential loss of purchased items results from the above condition.

Recommendation: We recommend that management strengthen internal controls to facilitate proper recordation, adequate monitoring, timely reconciliation and review of prepayments.

Auditee Response and Corrective Action Plan: KAJUR agrees with this finding and the listed recommendations. KAJUR agrees that in order to alleviate this issue, internal controls to facilitate proper recordation, adequate monitoring, timely reconciliation, and review of prepayments, need to be enforced and strengthened. KAJUR will also reorganize the procurement and supply department to ensure better coordination and proper operation.

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report.