

Audited Project Financial Statements

Project Number: 49450-007
Grant Number: 0554
Period covered: For Year End 30 September 2019

RMI: Majuro Power Network Strengthening Project

Prepared by Marshalls Energy Company (implementing agency)

For the Asian Development Bank
Date received by ADB: 15 February 2021

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**REPUBLIC OF THE MARSHALL ISLANDS
ASIAN DEVELOPMENT BANK GRANT 0554 RMI (SF)
MAJURO POWER NETWORK STRENGTHENING PROJECT**

**FINANCIAL STATEMENT,
ADDITIONAL INFORMATION
AND INDEPENDENT AUDITORS' REPORT**

**PERIOD FROM INCEPTION (DECEMBER 7, 2017)
THROUGH SEPTEMBER 30, 2019**

REPUBLIC OF THE MARSHALL ISLANDS
ASIAN DEVELOPMENT BANK GRANT 0554 RMI (SF)
MAJURO POWER NETWORK STRENGTHENING PROJECT

Period from Inception (December 7, 2017) through September 30, 2019

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INDEPENDENT AUDITORS' REPORT

His Excellency David Kabua
President
Republic of the Marshall Islands

Report on the Financial Statement

We have audited the accompanying financial statement of the Republic of the Marshall Islands (RMI) Majuro Power Network Strengthening Project (the "Project"), financed by the Asian Development Bank's Special Fund (Grant Number 0554-RMI (SF)), which comprises the schedule of receipts and disbursements for the period from inception (December 7, 2017) through September 30, 2019, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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 statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of the Project for the period from inception (December 7, 2017) through September 30, 2019, in accordance with the cash basis of accounting described in Note 2 to the financial statement.

Basis of Accounting

We draw attention to Note 2 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

Reporting Entity

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

Other Matters

Use of Proceeds of the Grant and Particular Covenants

In connection with our audit, nothing came to our attention that caused us to believe that the Project failed to comply with the terms, covenants, provisions, or conditions of Articles III and IV of the grant agreement dated December 7, 2017 insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Project's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the grant agreement, insofar as they relate to accounting matters.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The other supplementary information on page 6 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of the RMI Ministry of Finance, Banking and Postal Services and MEC's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the financial statement as a whole.

Restricted Use Relating to Other Matters

The communication related to compliance with the aforementioned grant agreement described in the Other Matters paragraph is intended solely for the information and use of the RMI Ministry of Finance, Banking and Postal Services and MEC's management and the Asian Development Bank and is not intended to be and should not be used by anyone other than these specified parties.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2021, on our consideration of the Project's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Project's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing* in considering the Project's internal control over financial reporting and compliance.

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

February 15, 2021

REPUBLIC OF THE MARSHALL ISLANDS
ASIAN DEVELOPMENT BANK GRANT 0554 RMI (SF)
MAJURO POWER NETWORK STRENGTHENING PROJECT

Schedule of Receipts and Disbursements
Period from Inception (December 7, 2017) Through September 30, 2019

Cash receipts:		
Withdrawal application No. 1	\$	47,591
Withdrawal application No. 2		16,344
Withdrawal application No. 3		<u>26,500</u>
Total cash receipts		<u>90,435</u>
Cash disbursements:		
Consulting services for supervision of advanced metering infrastructure		<u>90,435</u>
 Excess of cash receipts over cash disbursements	 \$	 <u>-</u>

See accompanying notes to financial statement.

REPUBLIC OF THE MARSHALL ISLANDS
ASIAN DEVELOPMENT BANK GRANT 0554 RMI (SF)
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Notes to Financial Statement
Period from Inception (December 7, 2017) through September 30, 2019

(1) Organization

On December 7, 2017, the Republic of the Marshall Islands (RMI) entered into a grant agreement (Grant Number 0554 RMI (SF)) with the Asian Development Bank (ADB) in the amount of \$2,000,000 for the Majuro Power Network Strengthening Project (the Project), with a grant closing date of January 31, 2020. On November 22, 2019, the ADB approved the extension of the grant agreement to a grant closing date of July 31, 2022. The objective of the Project is to: (1) install advanced metering infrastructure on the Majuro distribution network and; (2) prepare and endorse Marshalls Energy Company's (MEC) business process reengineering and the management improvement action plans.

The RMI Ministry of Finance, Banking and Postal Services is designated as the representative of the RMI for the purposes of the grant regulations. MEC, as the Project Implementation Agency, is responsible for carrying out the Project. The accompanying schedule of receipts and disbursements is prepared for the period from inception (December 7, 2017) through September 30, 2019, and solely incorporates the activities of the Project maintained by MEC and does not incorporate any accounts related to any other departments or agencies of the RMI Ministry of Finance, Banking and Postal Services or MEC.

(2) Summary of Significant Accounting Principles

Basis of Accounting

The Project's policy is to maintain its accounts and prepare its financial statement on the cash receipts and disbursements basis of accounting. All transactions are recognized as receipts or disbursements, including direct payments made by the ADB to vendors. Direct payments are disbursements made by the ADB, at the request of MEC, to designated beneficiaries (e.g., supplier, contractor, or consultant) directly. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts/revenues are recognized when received rather than when earned and disbursements/expenses are recognized when paid rather than when the obligation is incurred.

(3) Direct Payments by ADB

For the period from inception (December 7, 2017) through September 30, 2019, direct payments by ADB to the consultant amounted to \$26,500.

REPUBLIC OF THE MARSHALL ISLANDS
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Schedule of Budgeted v Actual Disbursements
Period From Inception (December 7, 2017) through September 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Disbursements:			
Advanced Metering Infrastructure (AMI)			
Procurement and installation of meters	\$ 495,000	\$ -	\$ 495,000
Procurement, installation, training and commissioning	640,000	-	640,000
Consulting Services for Supervision of AMI	234,000	90,435	143,565
Consulting Services for Business Process Re-engineering	500,000	-	500,000
Contingencies	131,000	-	131,000
Total disbursements	<u>\$ 2,000,000</u>	<u>\$ 90,435</u>	<u>\$ 1,909,565</u>

See accompanying independent auditors' report.