MAJURO WATER AND SEWER COMPANY, INC.

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

MAJURO WATER AND SEWER COMPANY, INC.
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Years Ended September 30, 2014 and 2013
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Majuro Water and Sewer Company, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Majuro Water and Sewer Company, Inc. (MWSC), 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 Majuro Water and Sewer Company, Inc. 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 through 7 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 July 7, 2015, on our consideration of MWSCs 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 MWSC's internal control over financial reporting and compliance.

Deloitte + Touche LLP

July 7, 2015

This section of the Majuro Water & Sewer Company, Inc. (MWSC) annual financial report presents management's discussion and analysis of MWSC's financial performance during the fiscal year ended 30th September 2014. This discussion has been prepared by management along with the financial statements and related footnote disclosure and should be read in conjunction with them. Management assumes full responsibility for the completeness and reliability of information presented in this report.

FINANCIAL HIGHLIGHTS

MWSC's net position increased by $379,862 in 2014 compared to a decrease of $364,196 in 2013. The significant increase was mainly due to an increase in capital assets funded by capital grant contributions.

Total operating revenues decreased by $191,113 in 2014 compared to an increase in revenue of $191,691 in 2013. Within the operating revenues, utility billings increased by $246,229 from $1,070,636 in 2013 to $1,316,865 in 2014. Hook-ups and delivery billings decreased by $134,117 from $430,865 in 2013 to $296,748 in 2014. The decrease in revenue is due to the drop in water demand by the fishing vessels. Furthermore, there has been an additional $467,814 allowance provided for uncollectable accounts in 2014 compared with $156,398 in 2013.

Operating expenses decreased by $220,793 from $1,860,629 in 2013 to $1,639,836 in 2014. The main contributing factor for the decrease in operating expenses is a decrease in electricity $29,067, spare parts $80,554, petroleum and lubricants $50,741, contractual services $42,143, repair and maintenance $11,639, miscellaneous $47,678 offset by an increase in salaries, wages and benefits $7,271, depreciation and amortization $7,099, travel $1,976, office supplies $1,145, insurance $18,994 and communications $4,544.

The Statement of Cash Flows net decrease in cash was $20,270 and $20,801 in 2013 and 2014, respectively. The operating activities of MWSC generated a net cash outflow of $48,306 in 2014 compared to a net cash outflow of $79,300 for 2013. The decrease in net cash flows was offset to a degree by net cash provided by capital and related financing activities, which increased in 2014.

FINANCIAL ANALYSIS OF MWSC

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

A Summary of MWSC's Statements of Net Position is presented below:

	2014	2013	2012
Current assets	$ 878,508	$ 801,104	$ 564,245
Capital and other assets	1,167,321	462,912	520,526
Total assets	2,045,829	1,264,016	1,084,771
Current liabilities	1,733,300	1,331,349	787,908

Net position:			
Net investment in capital assets	1,167,321	354,107	370,526
Restricted	177,554	226,840	223,648
Unrestricted	(1,032,346)	(648,280)	(297,311)
Total net position	$ 312,529	$ (67,333)	$ 296,863

As indicated above, total assets increased by $781,813 from $1,264,016 in 2013 to $2,045,829 in 2014.

Total liabilities reflect an increase of $401,951 from $1,331,349 in 2013 to $1,733,300 in 2014. The net position increased by $379,862 from a deficit of $67,333 in 2013 to $312,529 in 2014. There were no non-current liabilities at 30th September 2014 or 2013.

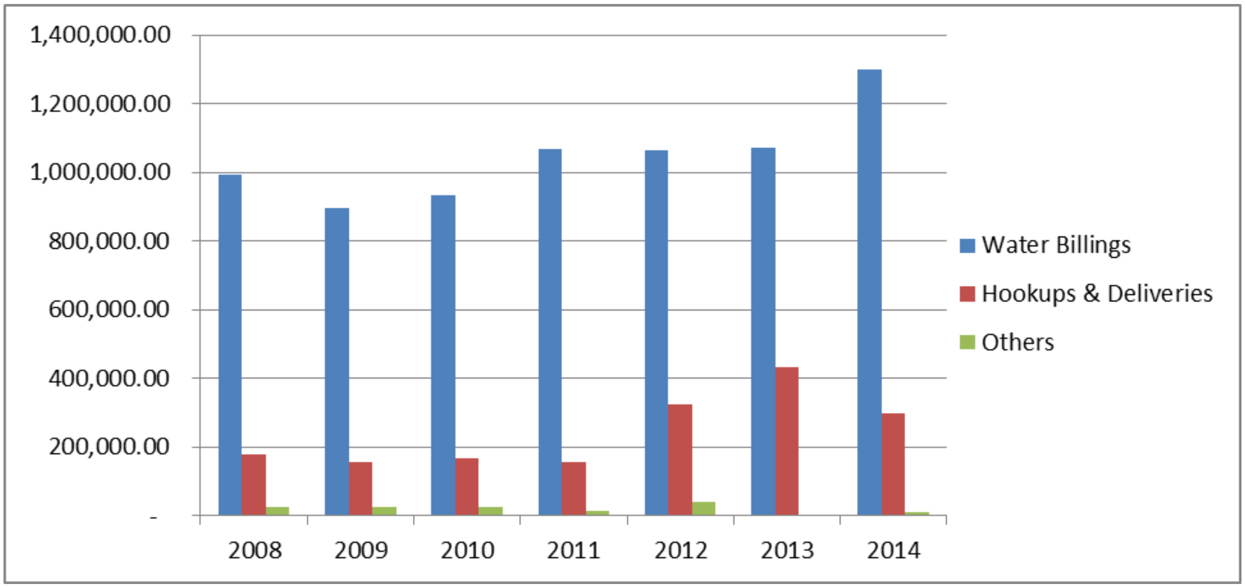
A Summary of MWSC's Statements of Revenues, Expenses and Changes in Net Position is presented below:

	2014	2013	2012
Revenues:			
Operating revenues	$ 1,157,746	$ 1,348,859	$ 1,157,168
Non-operating revenues	-	-	89,099
Total revenues	1,157,746	1,348,859	1,246,267
Expenses:			
Operating expenses	1,639,836	1,860,629	1,562,447
Non-operating expenses	616	2,426	6,139
Total expenses	1,640,452	1,863,055	1,568,586
Capital contributions	862,568	150,000	283,468
Change in net position	$ 379,862	$ (364,196)	$ (38,851)

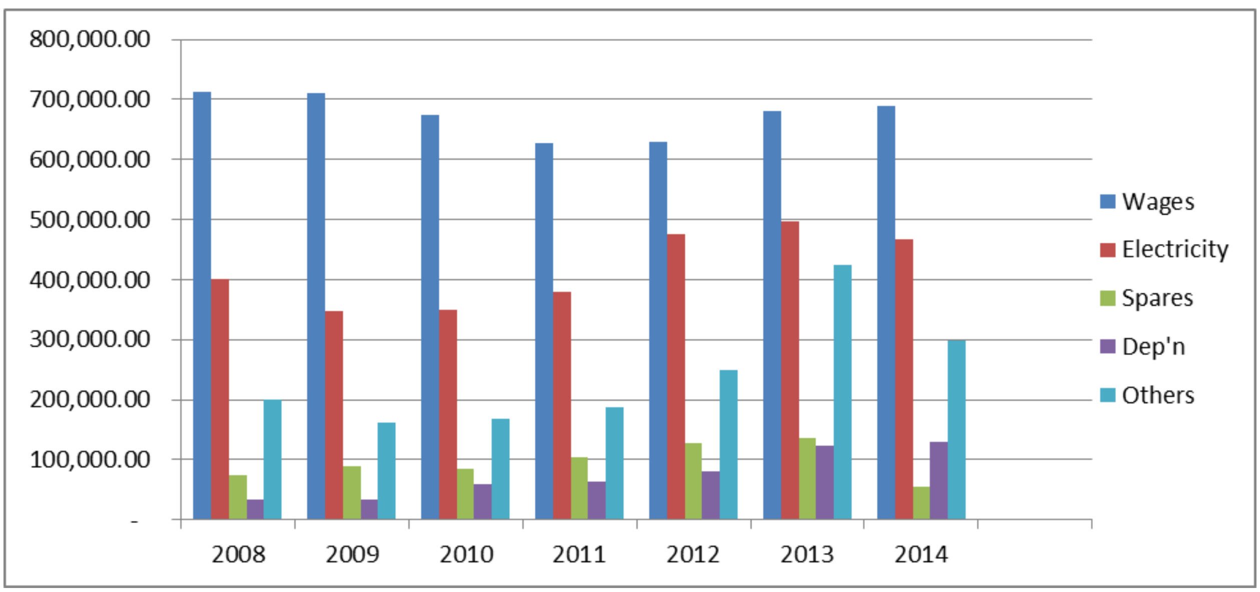
The Statement of Revenue, Expenses and Changes in Net Position identifies the various revenue and expense items that impacted the change in net position. As indicated above, MWSC's operating revenue decreased by $191,113 from $1,348,859 in 2013 to $1,157,746 in 2014. A decrease in revenue for 2014 consists of hook-up and delivery billings that decreased by $134,117 and an increase in bad debts expense of $311,416.

Non-operating revenues represent operating subsidies and grants received. RepMar discontinued financial support to assist MWSC with the payment of the monthly electricity bills owed to MEC. The subsidy of $300,000 received from RepMar in 2014 for Capital Improvement Projects to acquire spare parts. The grant received from Secretariat of the Pacific Regional Environment Programme (SPREP) in 2014 of $562,568 for the Relining of Airport Reservoirs No. 3, 4 and 5.

The graph below shows the major components of operating revenues for 2014 compared with the years 2008 through 2013.



Operating expenses decreased by $220,793 to $1,639,836 in 2014 from $1,860,629 in 2013. The graph below shows the major components of operating expenses for 2014 compared with the years 2008 to 2013.



Management's Discussion and Analysis for the ended September 30, 2013 is set forth in MWSC's report on the audit of financial statements, which is dated September 8, 2014. Such Management's Discussion and Analysis explains the major factors impacting the 2013 financial statements and can be obtained from MWSC's General Manager via the contact information on page 7.

CAPITAL ASSETS

Net capital assets increased by $813,214 in 2014 as a result of the acquisition of vehicle for a total cost of $24,400, machinery and equipment of $169,102, office equipment $14,698 and building and leasehold improvement of $735,052 less total depreciation for the year of $130,038.
A Summary of MWSC's capital assets is presented below:

	2014	2013	2012
Motor vehicle	$ 188,945	$ 164,545	$ 153,724
Machinery and equipment	579,260	410,158	356,567
Office equipment	172,534	157,836	115,728
Building and leasehold improvement	831,039	95,987	95,987
	1,771,778	828,526	722,006
Less accumulated depreciation	(604,457)	(474,419)	(351,480)
	$ 1,167,321	$ 354,107	$ 370,526

MWSC received capital contributions of $862,568 in 2014. The contribution of $300,000 from RepMar to acquire spare parts and $562,568 from The Secretariat of the Pacific Regional Environment Programme for the Relining of the Airport Reservoir. Please refer to note 4 to the financial statements for additional information on MWSC's capital assets.

FUTURE OUTLOOK ON SUSTAINABILITY

Future sustainability for Majuro Water & Sewer Company will require four major changes:

1. Increase in our customer base. Currently we have some 750 water customers and 1750 sewer customers out of a possible 3000. Increasing our customer base without having to major expansions to our assets will mean a significant increase in revenue without a proportional increase in operating costs.

   Encouraging new customers will require a concerted long term community awareness and education program to have them understand the value and benefits of connecting to our water and sewer system.

2. Renovate and repair our water, sewer and saltwater assets to improve reliability, and consequently, service to our customers. Without these improvements to standby, reliability of operations and monitoring to understand our business performance better the risks of failure of service are too high.

3. Tariff reform to recognize the cost of operating the business and to recognize inflation since the last tariff adjustment some 11 years ago.

4. Initiate survey of all services provided.

MWSC'S FOCUS IN THE COMING FISCAL YEAR

MWSC's focus in the coming year will be four fold:

1. Develop a long term (20 years) strategic plan for the business, along with a 5 year development plan in compliance with the commitments of the National Strategic Plan.

2. Obtain funding and initiate works for replacement of the existing sewage ocean outfall.

3. Establish the most appropriate arrangements to ensure water security for Majuro and initiate plans for the required facilities to source funding for the works.

4. Renovate and repair existing water, sewer and saltwater assets, providing funding is made available.

ADDITIONAL FINANCE INFORMATION

The discussion and analysis is designed to provide MWSC's customers and other stake holders with an overview of MWSC'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 Majuro Water and Sewer Company, Inc., Manager at P.O Box 1751, Majuro, MH 96960.

MAJURO WATER AND SEWER COMPANY, INC.

Statements of Net Position
September 30, 2014 and 2013

ASSETS	2014	2013
Current assets:		
Cash	$ 149,432	$ 170,233
Receivables:		
Utility	1,429,103	1,184,306
Affiliates	550,726	289,276
Other	47,218	28,488
	2,027,047	1,502,070
Less allowance for doubtful accounts	(1,571,545)	(1,103,731)
	455,502	398,339
Inventory	246,701	214,659
Prepaid expenses	26,873	17,873
Total current assets	878,508	801,104
Deposit on equipment	-	108,805
Capital assets, net	1,167,321	354,107
	$ 2,045,829	$ 1,264,016
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 128,019	$ 59,062
Payable to affiliates	1,523,427	1,218,371
Other accrued liabilities	81,854	53,916
Total current liabilities	1,733,300	1,331,349
Commitment and contingency		
Net position:		
Net investment in capital assets	1,167,321	354,107
Restricted	177,554	226,840
Unrestricted	(1,032,346)	(648,280)
Total net position	312,529	(67,333)
	$ 2,045,829	$ 1,264,016

See accompanying notes to financial statements.

MAJURO WATER AND SEWER COMPANY, INC.

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Utility billings	$ 1,316,865	$ 1,070,636
Hook-up and deliveries	296,748	430,865
Other	11,947	3,756
Total operating revenues	1,625,560	1,505,257
Less uncollectable accounts	(467,814)	(156,398)
Total net operating revenues	1,157,746	1,348,859
Operating expenses:		
Salaries, wages and benefits	688,487	681,216
Electricity	467,874	496,941
Depreciation and amortization	130,038	122,939
Spare parts	55,251	135,805
Petroleum, oil and lubricants	51,760	102,501
Insurance	41,261	22,267
Travel	40,830	38,854
Contractual services	29,265	71,408
Office supplies	26,497	25,352
Communications	22,466	17,922
Repairs and maintenance	14,201	25,840
Miscellaneous	71,906	119,584
Total operating expenses	1,639,836	1,860,629
Operating loss	(482,090)	(511,770)
Nonoperating expenses:		
Penalties and interest	(616)	(2,426)
Capital contributions:		
Republic of the Marshall Islands	300,000	150,000
Secretariat of the Pacific Regional Environment Programme	562,568	-
	862,568	150,000
Change in net position	379,862	(364,196)
Net position at beginning of year	(67,333)	296,863
Net position at end of year	$ 312,529	$ (67,333)

See accompanying notes to financial statements.

MAJURO WATER AND SEWER COMPANY, INC.

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

	2014	2013
Cash flows from operating activities:		
Cash received from customers	$ 1,100,583	$ 1,107,618
Cash payments to suppliers for goods and services	(458,128)	(597,699)
Cash payments to employees for services	(690,761)	(589,219)
Net cash used for operating activities	(48,306)	(79,300)
Cash flows from noncapital financing activities:		
Penalties and interest paid	(616)	(2,426)
Cash flows from capital and related financing activities:		
Capital contributions received	862,568	134,260
Acquisition of capital assets	(834,447)	(82,804)
Proceeds from sale of capital assets	-	10,000
Net cash provided by capital and related financing activities	28,121	61,456
Net change in cash	(20,801)	(20,270)
Cash at beginning of year	170,233	190,503
Cash at end of year	$ 149,432	$ 170,233
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (482,090)	$ (511,770)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	130,038	122,939
Bad debts	467,814	156,398
(Increase) decrease in assets:		
Receivables:		
Utility	(244,797)	(290,325)
Affiliates	(261,450)	(108,624)
Other	(18,730)	1,310
Inventory	(32,042)	(3,153)
Prepaid expenses	(9,000)	(5,256)
Increase (decrease) in liabilities:		
Accounts payable	68,957	(11,346)
Payable to affiliates	335,268	553,787
Other accrued liabilities	(2,274)	16,740
Net cash used for operating activities	$ (48,306)	$ (79,300)
Summary of noncash financing activities:		
Sale of capital assets	$ -	$ 7,479
Increase in receivables	-	(7,479)
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

Majuro Water and Sewer Company, Inc. (MWSC) was granted a corporate charter by the Cabinet of the Republic of the Marshall Islands (RepMar) on January 26, 1989. MWSC's principal lines of business are predominantly the collection and distribution of fresh water and wastewater. The principal markets for the collection and distribution of fresh water and wastewater are government agencies, businesses and residential customers located on the atoll of Majuro.

An exclusive franchise to construct, maintain and operate the fresh water, waste water and sewer system within Majuro Atoll was granted to MWSC by RepMar on March 9, 1989. Simultaneously, RepMar leased to MWSC, at no cost, the Majuro Atoll fresh water, waste water and sewer system. The term of both the lease and the franchise was for a ten year period commencing on March 9, 1989, and was to continue thereafter unless terminated by either party six months after written notice to the other.

On February 19, 2003, RepMar and MWSC entered into a Water and Sewer Franchise Agreement (the Agreement) to provide water and sewer service to the atoll of Majuro. The Agreement incorporates a lease agreement for MWSC to lease from RepMar the water and sewer system for a period of ten years at a rate of $100,000 per annum, commencing three years after the lease is in effect (February 19, 2006). The Agreement also forgave loans related to the construction of the water and sewer system and transferred the water system infrastructure to RepMar. RepMar and MWSC elected to record the forgiveness of these loans, and the related transfer of the water and sewer system asset from MWSC to RepMar, during the year ended September 30, 2002.

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

(2) Summary of Significant Accounting Policies

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

To conform to the requirements of GASB Statement 34, equity is presented in the following net position categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

- Restricted net position - resources in which MWSC is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.

- 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.

(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.

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

Cash

Custodial credit risk is the risk that in the event of a bank failure, MWSC's deposits may not be returned to it. Such deposits are not covered by depositor 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. MWSC 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 held in demand accounts. As of September 30, 2014 and 2013, cash was $149,432 and $170,233, respectively, and the corresponding bank balances were $179,149 and $175,169, respectively, of which $161,657 and $158,974, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014 and 2013, bank deposits in the amount of $161,657 and $158,974, respectively, were FDIC insured. MWSC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, these deposits were exposed to custodial credit risk.

Receivables

All receivables are due from government agencies, businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. 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 collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market (net realizable value).

(2) Summary of Significant Accounting Policies, Continued

Plant and Equipment

Plant and equipment are stated at cost. Depreciation of plant and equipment and amortization of leasehold improvements are calculated on the straight-line method based on the estimated useful lives of the respective assets. Individual items with a cost of $500 and an expected useful life of three years or longer are capitalized. The estimated useful lives of these assets are as follows:

Vehicles	2 - 4 years
Office equipment	3 - 8 years
Buildings and leasehold improvements	4 years
Machinery and equipment	5 - 10 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. MWSC 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. MWSC 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 water and sewer services by public utility companies are exempt from gross revenue tax. Accordingly, MWSC is exempt from this tax relating to gross revenue from sales of water and sewer services.

Revenue Recognition

Sales of water are recorded as billed to customers on a monthly billing cycle basis with customer water meters being read at the end of each month. Revenue is recognized in the period the meters are read. Wastewater treatment is billed at a flat rate of $12 per month for residential accounts and $9 per pan for commercial and government accounts. Water delivery sales and hook-up fees are recorded when the services are provided to customers.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2014, MWSC 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 MWSC.

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 MWSC.

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 MWSC.

(3) Risk Management

MWSC 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. MWSC has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. However, as of September 30, 2014, MWSC is self-insured for any losses that could befall its buildings, equipment and inventory. 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. No losses as a result of these risks have occurred in any of the past three years.

(4) Capital Assets

Capital asset activity for the years ended September 30, 2014 and 2013 was as follows:

	2014			
	October 1, 2013	Additions	Retirements	September 30, 2014
Vehicles	$ 164,545	$ 24,400	$ -	$ 188,945
Machinery and equipment	410,158	169,102	-	579,260
Office equipment	157,836	14,698	-	172,534
Buildings and leasehold improvements	95,987	735,052	-	831,039
	828,526	943,252	-	1,771,778
Less accumulated depreciation and amortization	(474,419)	(130,038)	-	(604,457)
	$ 354,107	$ 813,214	$ -	$ 1,167,321

	2013			
	October 1, 2012	Additions	Retirements	September 30, 2013
Vehicles	$ 153,724	$ 28,300	$ (17,479)	$ 164,545
Machinery and equipment	356,567	53,591	-	410,158
Office equipment	115,728	42,108	-	157,836
Buildings and leasehold improvements	95,987	-	-	95,987
	722,006	123,999	(17,479)	828,526
Less accumulated depreciation and amortization	(351,480)	(122,939)	-	(474,419)
	$ 370,526	$ 1,060	$ (17,479)	$ 354,107

(5) Restricted Net Position

Restricted net position at September 30, 2014 and 2013, consists of the following:

	2014	2013
RepMar capital grants	$ 177,554	$ 226,840

(6) Related Party Transactions

MWSC is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. MWSC'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. MWSC utilizes services from certain affiliated entities at substantially more favorable terms and conditions than those provided to third parties.

During the years ended September 30, 2014 and 2013, MWSC received capital contributions of $300,000 and $150,000, respectively, from RepMar, of which $122,446 and $58,781, respectively, were spent to acquire equipment and for reconstruction of the Reservoir.

During the year ended September 30, 2012, MWSC received a capital contribution of $150,000 from RepMar, which was paid to a vendor as a deposit for the acquisition of equipment. At September 30, 2013, MWSC has an outstanding prepayment balance of $108,805.

A summary of related party transactions for the years ended September 30, 2014 and 2013, and related receivable and payable balances as of September 30, 2014 and 2013, is as follows:

	2014			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 209,610	$ 30,628	$ 310,423	$ 27,972
Marshalls Energy Company, Inc.	6,326	936,762	25,033	1,482,240
Marshall Islands National Telecommunications Authority	1,918	20,862	1,611	2,623
Marshall Islands Social Security Administration	220	72,923	581	10,592
Majuro Resort, Inc.	30,940	7,666	7,842	-
Other	131,572	-	205,236	-
	$ 380,586	$ 1,068,841	$ 550,726	$ 1,523,427

	2013			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 210,319	$ 10,409	$ 143,287	$ 56,043
Marshalls Energy Company, Inc.	5,032	539,692	34,291	1,105,685
Marshall Islands National Telecommunications Authority	4,007	22,414	4,086	1,196
Marshall Islands Social Security Administration	776	57,467	458	39,537
Majuro Resort, Inc.	23,103	13,620	10,297	9,247
Other	102,461	10,717	96,857	6,663
	$ 345,698	$ 654,320	$ 289,276	$ 1,218,371

Receivables from and payables to affiliates are uncollateralized, are interest free and have no set repayment terms.

(7) Commitment

On February 19, 2003, RepMar and MWSC entered into a franchise agreement to provide water and sewer service to the atoll of Majuro. The agreement incorporates a lease agreement for MWSC to lease from RepMar the water and sewer system for a period of ten years at a rate of $100,000 per annum, commencing three years after the lease is in effect (February 19, 2006).

Total future minimum lease payments for subsequent years ending September 30, are as follows:

Year ending September 30,	
2015	$ 966,667
2016	33,333
	$ 1,000,000

During the years ended September 30, 2014 and 2013, MWSC did not record the liability per the franchise agreement due to lack of capacity to make the payments in the foreseeable future. MWSC essentially depends on financing from RepMar and MEC to be able to continue as a going concern. Thus, management will negotiate the franchise terms with RepMar. If negotiations fail, MWSC may become liable for the above amounts but management does not believe that it will possess the ability to liquidate that liability.

(8) Going Concern

MWSC has incurred losses from operations of $482,090 and $511,770 during the years ended September 30, 2014 and 2013, respectively. Management believes that the continuation of MWSC's operations is dependent upon the future financial support of RepMar, compensation by RepMar for the cost of actual utility service provided, the collection of long outstanding utility receivables, and/or significant improvements in operations, among other matters. Additionally, in order for MWSC to continue as a going concern, it may need to delay payments to the Marshalls Energy Company, Inc. for electric usage.

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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
Majuro Water and Sewer Company, 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 Majuro Water and Sewer Company, Inc. (MWSC), 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 July 7, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MWSC'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 MWSC's internal control. Accordingly, we do not express an opinion on the effectiveness of MWSC's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2014-001 through 2014-003, which we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MWSC'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 Responses as item 2014-004.

MWSC's Responses to Findings

MWSC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. MWSC'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

July 7, 2015

MAJURO WATER AND SEWER COMPANY, INC.

Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-001

Journal Entries

Criteria: Adequate accounting controls require that journal entries are appropriately approved and documented.

Conditions: Tests of journal entries noted the following conditions:

A. Four manual adjusting entries (nos. 466, 146, 145 and 226) were recorded to reconcile FY14 expenses against actual inventories. These entries were initially charged to maintenance supplies expense and were subsequently reclassified to the inventory account. These entries did not contain an approver's signature.

B. One manual entry (no. 140114161654) was recorded which pertains to a UTP adjustment to correct October 2013 billings. The entry does not reflect an approver's signature.

C. One manual entry (no. 14JVADJ0080) was recorded to correct prior year electric expense charged to accrued expenses. The manual entry does not reflect an approver's signature.

D. Entry 13JVADJ253 pertains to a 30% downpayment for a reservoir relining project which was recorded to correct prepaid expenses and was reclassified to professional services. The entry does not reflect an approver's signature.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures over the review of journal entries.

Effect: The effect of the above condition is a potential for unauthorized journal entries.

Prior Year Status: The lack of adequate internal control policies and procedures over the review of journal entries was reported as a finding in the audit of MWSC for fiscal year 2013.

Recommendation: We recommend management establish internal control policies and procedures to evidence review and approval of journal entries.

Auditee Response and Corrective Action Plan: MWSC is in agreement with Finding No. 2014-1 and recommendation. As noted, there is a lack of adequate internal control policies and procedures over the reviewer of journal entries prior to posting in the account system. MWSC management has established internal control policies and procedures requiring all journal entries must have supporting documents attach by the preparer and approve by the reviewer.

Finding No. 2014-002

Bank Reconciliations

Criteria: Adequate internal control policies necessitate that bank reconciliations be independently reviewed and approved.

Conditions:

A. Bank reconciliations did not reflect the preparer and were not documented as being independently reviewed and approved.

B. The September 30, 2014 General bank account reconciliation included $9,475 of reconciling items that appear invalid due to a voided check (Check # 17499) and the double recording of a cash disbursement. Audit adjustments were proposed to correct this matter.

C. The September 30, 2014 General bank account and payroll bank account reconciliation included $14,112 and $2,092 of stale checks, respectively, which were aged beyond six months, with the majority outstanding for 2 to 3 years.

Cause: The cause of the above condition is inadequate internal control policies and procedures over the bank reconciliation process.

Effect: The effect of the above condition is exposure to possible misstatements of cash.

Prior Year Status: The lack of adequate internal control policies and procedures over the bank reconciliation process was reported as a finding in the audit of MWSC for fiscal year 2013.

Recommendation: We recommend that management adopt internal control policies and procedures requiring independent review and approval of bank reconciliations. In addition, we recommend that reconciling items be addressed timely.

Auditee Response and Corrective Action Plan: MWSC is in agreement with Finding No. 2014-2 and recommendation. MWSC management has established policies and procedures over the bank reconciliation. MWSC management has hired an Accountant to perform the monthly reconciliation of the bank accounts.

Finding No. 2014-003

GL Account Reconciliations

Criteria: Adequate internal control policies should be adopted and established to facilitate reliable and relevant accounting records.

Conditions:

A. A 30% downpayment of $178,630 per check no.16617 in relation to the Reservoir Relining Project was initially charged to maintenance expense. The account was reclassified to prepaid expense and was reclassified again to professional services. The transaction should have been capitalized and depreciated over the estimated useful life of the fixed assets. This matter was corrected through a proposed audit adjustment.

B. Various maintenance expenses and supplies aggregating $81,972 charged to prepaid expenses were subsequently capitalized. This matter was corrected through a proposed audit adjustment

C. JV no. 14JVADJ0082 recorded diesel expense for the year but did not factor in prepayments. MWSC's practice is to prepay fuel and close the prepaid account at the end of the year regardless of delivery date.

Cause: The cause of the above condition is inadequate internal control policies and procedures that facilitate monitoring of purchase orders and that determine completeness of related accounts.

Effect: The effect of above condition is exposure to possible misstatements in related accounts.

Prior Year Status: The lack of adequate internal control policies and procedures over general ledger account reconciliations was reported as a finding in the audit of MWSC for fiscal year 2013.

Recommendation: We recommend the management adopt internal control policies and procedures that would require adequate documentation and provide for the completeness of accounting records.

Auditee Response and Corrective Action Plan: MWSC is in agreement with Finding No. 2014-3 and recommendation. MWSC management has established policies and procedures over GL Account Reconciliations. There will be a close coordination with the Procurement Department to ensure that purchase orders are verified with invoices to validate the completeness of prepayment and Capital Assets. The Finance Manager will ensure that account reconciliations are performed on a timely manner.

Finding No. 2014-004

Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social and Political Development of the Territories
Grant Number:	Compact Sector Grants
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$22,287

Criteria: Article VI, Section 1(j)(1) of the Fiscal Procedures Agreement (FPA) states that RepMar may use its own procedures for procurement, whether done by the government or its Sub-Grantees, provided that they meet the standards identified in the FPA.

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 made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than $25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from three qualified sources.

(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 $22,287 disbursement (Check # 17285) charged to the Compact Sector grant was not subjected to competitive processes. MWSC appears noncompliant with RepMar's Procurement Code and procurement requirements imposed per the Compact of Free Association.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures and compliance with RepMar's Procurement Code and Ministry of Finance's policies.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code and Ministry of Finance policies.

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code and Ministry of Finance's policies.

Auditee Response and Corrective Action Plan: The main supply pumps were down so we needed them fast to avoid emergency shut down of the Treatment Plant C. And other parts were needed for the inlet of the reservoirs, as the project was starting soon, and we need them to fast we decided to sole source it real quick with the vendor.

Finding No. 2014-004, Continued

Auditee Response and Corrective Action Plan:, Continued

MWSC Management will implement an internal control policy to ensure that this sort of incident will not take place anymore.

Operation Manager and Accounting Manager must ensure that any procurement that involves Compact Funding is in compliance with the RMI's Procurement Code requirement.

MAJURO WATER AND SEWER COMPANY, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2014

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section of this report.