

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, 2019 AND 2018

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

Years Ended September 30, 2019 and 2018
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	3
III. FINANCIAL STATEMENTS:	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12
IV. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	21
Schedule of Findings and Responses	23
Unresolved Prior Year Findings	24

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, 2019 and 2018, 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 MWSC as of September 30, 2019 and 2018, 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.

Emphasis of Matters

Going Concern

The accompanying financial statements have been prepared assuming that MWSC will continue as a going concern. As discussed in Note 10 to the financial statements, MWSC's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 10 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

COVID-19

As discussed in Note 11 to the financial statements, MWSC determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. MWSC is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

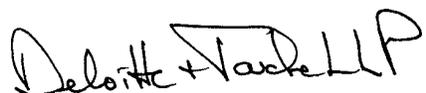
Other Matters

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 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2020, on our consideration of MWSC'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 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 MWSC's 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.



August 18, 2020

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

FINANCIAL HIGHLIGHTS

MWSC's net position decreased by \$326,335 in 2019 compared to a decrease in net position of \$260,432 in 2018.

Total operating revenues increased by \$186,932 from \$1,237,421 in 2018 to \$1,424,353 in 2019. Within the operating revenues, utility billings increased by \$40,320 from \$1,036,386 in 2018 to \$1,076,706 in 2019. Hook-ups and delivery billings increased by \$150,359 from \$190,297 in 2018 to \$340,656 in 2019. The significant increase in revenue is due to high demand in water utility and bulk water. Furthermore, there has been an additional \$119,350 allowance provided for uncollectable accounts in 2019 compared with \$212,306 in 2018.

Operating expenses decreased by \$199,738 from \$1,942,550 in 2018 to \$1,742,812 in 2019. The main contributing factor for the decrease in operating expenses is a decrease in electricity \$188,803, depreciation and amortization \$30,121, insurance \$22,720, spare parts \$21,230, contractual services \$13,105, chlorine \$7,033 entertainment and food \$5,258, office supplies \$3,168, uniforms \$3,021 and miscellaneous \$6,831, offset by an increase in licenses, fees and taxes \$23,278, salaries, wages and benefits \$19,472, petroleum, oil and lubricants \$18,607, travel \$12,019, freight and handling \$13,253, repairs and maintenance \$5,200, and communications \$2,399.

The Statement of Cash Flows net decrease in cash was \$443,734 in 2019 compared with a net increase of \$434,403 in 2018. The operating activities of MWSC resulted in a net cash outflow of \$236,543 in 2019 compared to a net cash outflow of \$37,277 for 2018. Cash flows provided by noncapital financing activities were \$111,474 in 2019 compared to \$238,325 in 2018. Cash flows from capital and related financing activities decreased in 2019 by \$318,665 while they increased by \$233,355 in 2018.

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:

Summary Statements of Net Position
As of September 30

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Assets:					
Current and other assets	\$ 852,196	\$ 1,007,978	\$ (155,782)	(15.5)%	\$ 815,375
Capital assets	<u>1,497,649</u>	<u>1,532,746</u>	<u>(35,097)</u>	(2.3)%	<u>1,666,504</u>
Total assets	<u>2,349,845</u>	<u>2,540,724</u>	<u>(190,879)</u>	(7.5)%	<u>2,481,879</u>
Liabilities:					
Current and other liabilities	<u>3,260,156</u>	<u>3,124,700</u>	<u>135,456</u>	4.3%	<u>2,805,423</u>
Net position:					
Net investment in capital assets	1,497,649	1,532,746	(35,097)	(2.3)%	1,666,504
Restricted	165,261	604,242	(438,981)	(72.6)%	85,300
Unrestricted	<u>(2,573,221)</u>	<u>(2,720,964)</u>	<u>147,743</u>	(5.4)%	<u>(2,075,348)</u>
Total net position	<u>\$ (910,311)</u>	<u>\$ (583,976)</u>	<u>\$ (326,335)</u>	55.9%	<u>\$ (323,544)</u>

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

As indicated above, total assets decreased by \$190,879 from \$2,540,724 in 2018 to \$2,349,845 in 2019. This decrease was primarily the result of a decrease in cash of \$443,734 from \$590,017 in 2018 to \$146,283 in 2019 offset by an increase in net receivables of \$96,238 from \$83,088 in 2018 to \$179,326 in 2019 and prepaid expenses of \$140,776 from \$5,286 in 2018 to \$146,062 in 2019.

Total liabilities reflect an increase of \$135,456 from \$3,124,700 in 2018 to \$3,260,156 in 2019. The increase was primarily the result of an increase in payables to affiliates, which increased primarily because of an increase in liabilities for MWSC electricity bills owed to Marshalls Energy Company.

The net position decreased by \$326,335 from a net position deficit of \$583,976 in 2018 to \$910,311 in 2019.

A summary of MWSC's statements of revenues, expenses and changes in net position is presented below:

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

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Operating:					
Operating revenues	\$ 1,305,003	\$ 1,025,115	\$ 279,888	27.3%	\$ 1,068,787
Operating expenses	<u>1,742,812</u>	<u>1,942,550</u>	<u>(199,738)</u>	(10.3)%	<u>1,901,178</u>
Operating loss	<u>(437,809)</u>	<u>(917,435)</u>	<u>479,626</u>	(52.3)%	<u>(832,391)</u>
Nonoperating:					
Nonoperating revenues	<u>111,474</u>	<u>238,325</u>	<u>(126,851)</u>	(53.2)%	<u>-</u>
	<u>(326,335)</u>	<u>(679,110)</u>	<u>352,775</u>	(51.9)%	<u>(832,391)</u>
Capital contributions	<u>-</u>	<u>418,678</u>	<u>(418,678)</u>	(100.0)%	<u>644,816</u>
Change in net position	<u>\$ (326,335)</u>	<u>\$ (260,432)</u>	<u>\$ (65,903)</u>	25.3%	<u>\$ (187,575)</u>

The statement of revenues, expenses and changes in net position identifies that various revenue and expense items that impacted the change in net position.

As indicated above, MWSC's net operating revenues increased by \$279,888 from \$1,025,115 in 2018 to \$1,305,003 in 2019. The increase in revenue for 2019 consists of an increase in utility billings of \$40,320 and hook-up and deliveries of \$150,359, which is offset by a decrease in other operating revenues of \$3,747 and a decrease in bad debts expense of \$92,956.

Nonoperating revenues represent operating subsidies and grants received. MWSC received operating subsidies of \$111,474 in 2019 compared with \$238,325 in 2018. Of these amounts, \$89,051 and \$208,325, respectively, were received from RepMar under the Compact of Free Association Public Infrastructure Sector grant. The remaining amounts were received from other donor governments, namely \$22,423 from the Republic of China Taiwan in 2019 and \$30,000 from the Government of Japan in 2018. The grants received in 2019 of \$111,474 are to fund the upgrade of existing Saltwater and Sanitary Sewer Pump Stations, Water Treatment Plant C and Water Treatment Plant A.

In addition, MWSC was the recipient of capital contributions of \$418,678 in 2018 from the U.S. Department of the Interior (\$327,000) and the Government of Japan (\$91,678). No capital contributions were received in 2019.

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

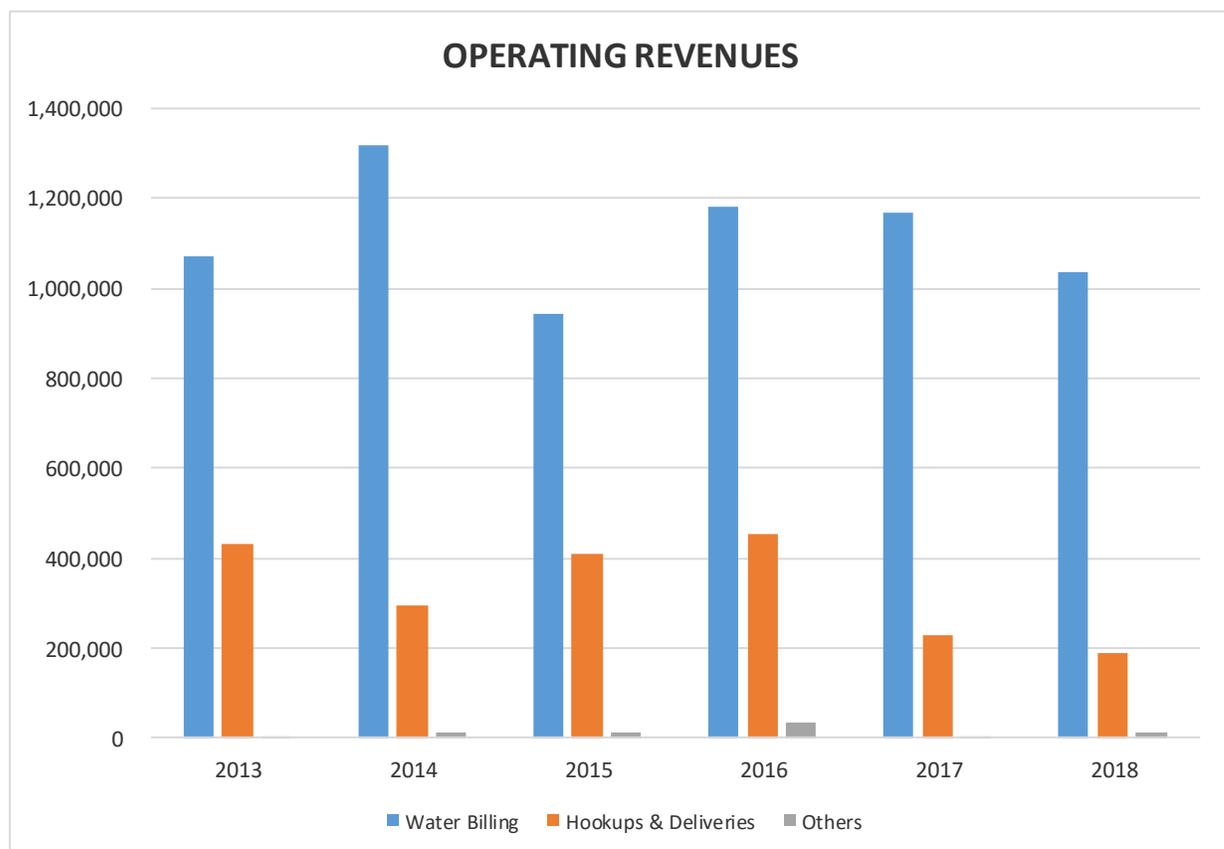
Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Below is the summary of the major components of operating revenues in 2019 compared to 2018 and 2017:

Summary of Revenues by Component
Years Ended September 30

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Revenues:					
Utility billings	\$ 1,076,706	\$ 1,036,386	\$ 40,320	3.9%	\$ 1,169,837
Hook-up and deliveries	340,656	190,297	150,359	79.0%	226,643
Other	<u>6,991</u>	<u>10,738</u>	<u>(3,747)</u>	(34.9)%	<u>4,411</u>
	1,424,353	1,237,421	186,932	15.1%	1,400,891
Uncollectible accounts	<u>(119,350)</u>	<u>(212,306)</u>	<u>92,956</u>	(43.8)%	<u>(332,104)</u>
Net revenues	<u>\$ 1,305,003</u>	<u>\$ 1,025,115</u>	<u>\$ 279,888</u>	27.3%	<u>\$ 1,068,787</u>

The graph below shows the major components of operating revenues for 2019 compared with the year 2013 to 2018:



Operating expenses decreased by \$199,738 from \$1,942,550 in 2018 to \$1,742,812 in 2019.

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

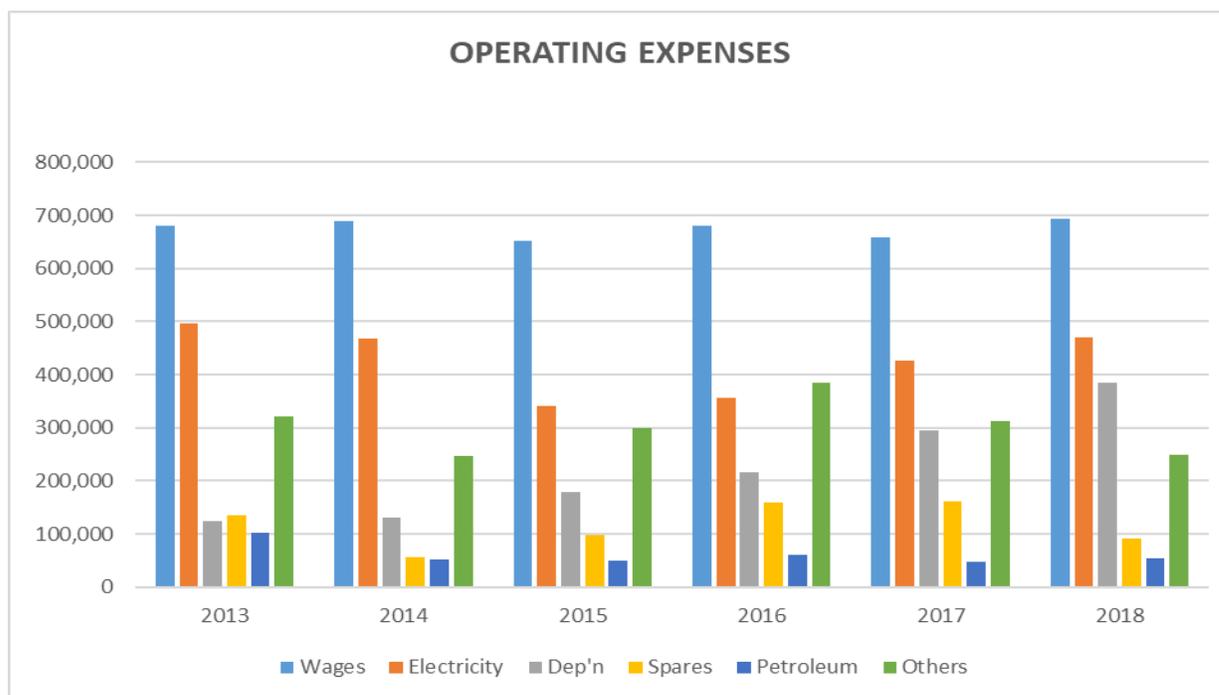
Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Below is a summary of the major components of operating expenses in 2019 compared to 2018 and 2017:

Summary of Expenses by Component
Years Ended September 30

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Expenses:					
Salaries, wages and benefits:	\$ 712,395	\$ 692,923	\$ 19,472	2.8%	\$ 657,989
Depreciation	353,762	383,883	(30,121)	(7.8)%	295,535
Electricity	282,404	471,207	(188,803)	(40.1)%	425,385
Spare parts	69,749	90,979	(21,230)	(23.3)%	161,333
POL	72,114	53,507	18,607	34.8%	47,685
Others	252,388	250,051	2,337	0.9%	313,251
	<u>\$ 1,742,812</u>	<u>\$ 1,942,550</u>	<u>\$ (199,738)</u>	(10.3)%	<u>\$ 1,901,178</u>

The graph below shows the major components of operating expenses for 2019 compared with the year 2013 to 2018:



Management's Discussion and Analysis for the ended September 30, 2018 is set forth in MWSC's report on the audit of financial statements, which is dated April 12, 2019. Such Management's Discussion and an Analysis explains the major factors impacting the 2018 financial statements and can be obtained from MWSC's General Manager via the contact information below.

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

CAPITAL ASSETS

Net capital assets decreased by \$35,097 in 2019 as a result of the acquisition of vehicles of \$17,513, machinery and equipment of \$294,344 and office equipment of \$6,808 less total depreciation and amortization for the year of \$353,762. A summary of MWSC's capital assets is presented below:

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Vehicles	\$ 272,686	\$ 255,173	\$ 17,513	6.9%	\$ 255,173
Machinery and equipment	1,878,863	1,584,519	294,344	18.6%	1,340,594
Office equipment	237,663	230,855	6,808	2.9%	224,655
Buildings and improvements	952,501	952,501	-	0.0%	952,501
	3,341,713	3,023,048	318,665	10.5%	2,772,923
Accumulated depreciation	(1,844,064)	(1,490,302)	(353,762)	23.7%	(1,106,419)
	<u>\$ 1,497,649</u>	<u>\$ 1,532,746</u>	<u>\$ (35,097)</u>	(2.3)%	<u>\$ 1,666,504</u>

Additional information on MWSC's capital assets is disclosed within note 4 to the accompanying financial statements.

FUTURE OUTLOOK ON SUSTAINABILITY

Future sustainable for MWSC will require four major changes:

1. Increase in our customer base. Currently we have some 1,561 water customers and 2,498 sewer customers out of a possible 4,059. Increasing our customer base without having to major expansions to our assets will mean a significant increase in revenue without proportional increase in operating costs. Encouraging new customers will require a concerted long term community awareness and educational program to have them understand the value and benefits to connecting to our water and sewer system.
2. Renovate and repair water, sewer and saltwater assets to improve reliability, consequently, service to our customers.
3. Tariff reform to recognize the cost of operating the business and to recognize inflation since the last tariff adjustment was 13 years ago. MWSC will prepare tariff reform proposal based on present and future needs for Board approval.
4. Initiate survey of all services provided.

The Marshall Islands is currently not being directly impacted by the current COVID-19 pandemic being experienced elsewhere worldwide. No cases of COVID-19 have yet to be experienced in the Marshall Islands and, as such, MWSC have been able to continue operations as usual. In the event that the pandemic reaches the Marshall Islands, we expect MWSC to feel the impact of such through delayed hook-ups and delivery of water and, as a result, reliance on RepMar for operational subsidies.

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

MWSC'S FOCUS IN THE COMING YEAR

MWSC's focus in the coming year are the following:

1. Continued implementation of developmental goals under the guidance of the 20 Year Development Plan. Lift stations, saltwater stations and parts of the water treatment plants are being targeted for upgrades with leftover Department of Interior funding from the grant used to complete the 20 year development plan. These stations are also being examined for energy efficiency improvement from the Sustainable Energy Development Project (SEDeP) implemented by the World Bank on behalf of the RMI.
2. Utilize available funding from ADB to begin project preparation for the following projects:
 - a. MWSC's Non Revenue Water Improvement Plan. This plan will improve MWSC's capability to capture lost revenue in our water system and will provide MWSC with a water balance on the system.
 - b. Establishing an asset management and GIS system. With the objective of accurate and reliable information about the location, condition and performance of its assets.
 - c. Macerator Facility/Rehab of Pump Station No. 1. This facility will provide a physical treatment of sewage streams and output to the newly rebuilt outfall in Delap. Large solids will macerated into smaller particles for easier/better dispersion of outfall.
3. Establishing a Statement of Corporate Intent that will cover current fiscal year and the next two fiscal years.
4. Establishing a Business Plan that will cover current fiscal year and the next two fiscal years.
5. Hire an Attorney to collect long outstanding debts and other legal issues.
6. TAP Grant awarded from DOI will be used to:
 - a. Procure professional services that will provide mapping and or to rectifying imagery and plan metrics for all of Majuro for GIS base map.
 - b. Acquisition of GIS Software, GPS equipment and training.
 - c. Acquisition of large format printer to produce field maps.

ADDITIONAL FINANCE INFORMATION

The discussion and analysis is designed to provide 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 & Sewer Company, Inc. General Manager at P.O. Box 1751 Majuro, MH 96960.

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

Statements of Net Position
September 30, 2019 and 2018

	2019	2018
<u>ASSETS</u>		
Current assets:		
Cash	\$ 146,283	\$ 590,017
Receivables:		
Utility	2,156,115	1,861,380
Affiliates	104,724	96,682
Other	32,087	21,674
	2,292,926	1,979,736
Less allowance for doubtful accounts	(2,113,600)	(1,896,648)
	179,326	83,088
Inventory	380,525	329,587
Prepaid expenses	146,062	5,286
Total current assets	852,196	1,007,978
Capital assets, net	1,497,649	1,532,746
	\$ 2,349,845	\$ 2,540,724
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 153,677	\$ 104,769
Payable to affiliates	2,991,690	2,919,902
Unearned revenue	62,921	45,801
Other accrued liabilities	51,868	54,228
Total current liabilities	3,260,156	3,124,700
Commitment and contingencies		
Net position:		
Net investment in capital assets	1,497,649	1,532,746
Restricted	165,261	604,242
Unrestricted	(2,573,221)	(2,720,964)
Total net position	(910,311)	(583,976)
	\$ 2,349,845	\$ 2,540,724

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Operating revenues:		
Utility billings	\$ 1,076,706	\$ 1,036,386
Hook-up and deliveries	340,656	190,297
Other	6,991	10,738
Total operating revenues	1,424,353	1,237,421
Less uncollectable accounts	(119,350)	(212,306)
Total net operating revenues	1,305,003	1,025,115
Operating expenses:		
Salaries, wages and benefits	712,395	692,923
Depreciation and amortization	353,762	383,883
Electricity	282,404	471,207
Petroleum, oil and lubricants	72,114	53,507
Spare parts	69,749	90,979
Licenses, fees and taxes	40,699	17,421
Communications	33,244	30,845
Travel	28,202	16,183
Insurance	24,484	47,204
Rental	20,794	13,069
Freight and handling	18,453	5,200
Entertainment and food	17,698	22,956
Contractual services	17,265	30,370
Office supplies	15,966	19,134
Repairs and maintenance	7,200	2,000
Chlorine	7,098	14,131
Uniforms	1,069	4,090
Advertising	-	401
Miscellaneous	20,216	27,047
Total operating expenses	1,742,812	1,942,550
Operating loss	(437,809)	(917,435)
Nonoperating revenues:		
Operating subsidies from RepMar	111,474	208,325
Other operating grants	-	30,000
Total nonoperating revenues	111,474	238,325
Loss before capital contributions	(326,335)	(679,110)
Capital contributions	-	418,678
Change in net position	(326,335)	(260,432)
Net position at beginning of year	(583,976)	(323,544)
Net position at end of year	\$ (910,311)	\$ (583,976)

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	\$ 1,225,885	\$ 1,166,771
Cash payments to suppliers for goods and services	(699,313)	(547,645)
Cash payments to employees for services	(763,115)	(656,403)
Net cash used for operating activities	(236,543)	(37,277)
Cash flows from noncapital financing activities:		
Operating grants received	111,474	238,325
Cash flows from capital and related financing activities:		
Capital contributions received	-	327,000
Acquisition of capital assets	(318,665)	(93,645)
Net cash provided by (used for) capital and related financing activities	(318,665)	233,355
Net change in cash	(443,734)	434,403
Cash at beginning of year	590,017	155,614
Cash at end of year	\$ 146,283	\$ 590,017
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (437,809)	\$ (917,435)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	353,762	383,883
Uncollectable accounts	119,350	212,306
(Increase) decrease in assets:		
Receivables:		
Utility	(197,133)	(211,103)
Affiliates	(8,042)	88,634
Other	(10,413)	65,824
Inventory	(50,938)	16,353
Prepaid expenses	(140,776)	4,984
Increase (decrease) in liabilities:		
Accounts payable	48,908	1,803
Payable to affiliates	71,788	300,681
Unearned revenue	17,120	(14,005)
Other accrued liabilities	(2,360)	30,798
Net cash used for operating activities	\$ (236,543)	\$ (37,277)
Summary disclosure of noncash financing activities:		
Capital assets donated by a foreign donor:		
Capital assets	\$ -	\$ (91,678)
Capital contributions	-	91,678
	\$ -	\$ -
Transfer of inventory to capital assets:		
Inventory	\$ -	\$ 64,802
Capital assets	-	(64,802)
	\$ -	\$ -

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2019 and 2018

(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 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 Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) and the Marshalls Energy Company, Inc. (MEC), which are component units of RepMar.

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

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as 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 Statements No. 14 and 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 modifies certain other financial statement disclosure requirements.

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

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

To conform to these requirements, equity is presented in the following net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.
- Restricted: Nonexpendable net position subject to externally imposed stipulations that require MWSC to maintain such permanently. As of September 30, 2019 and 2018, MWSC does not have nonexpendable restricted net position.
- Restricted: Expendable net position whose use by MWSC is subject to externally imposed stipulations that can be fulfilled by actions of MWSC pursuant to those stipulations or that expire with the passage of time. As of September 30, 2019 and 2018, MWSC has expendable net position as follows:

	<u>2019</u>	<u>2018</u>
Republic of the Marshall Islands:		
Compact of Free Association Public Infrastructure Sector		
Grants:		
Majuro Water and Sewer Capital Upgrade Projects	\$ 164,134	\$ 277,242
U.S. Government:		
U.S. Department of the Interior:		
Airport Runway Cleanliness and Efficiency Program	<u>1,127</u>	<u>327,000</u>
	<u>\$ 165,261</u>	<u>\$ 604,242</u>

- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use for the same purpose, it is MWSC'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.

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

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition

MWSC's revenues are derived primarily from the operation of the fresh water and wastewater system. Capital grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. 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. All expenses related to operating MWSC are reported as operating expenses.

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 of cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2019 and 2018, cash was \$146,283 and \$590,017, respectively, and the corresponding bank balances were \$201,647 and \$620,379, respectively. Of the bank balances, \$197,299 and \$612,296, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$4,348 and \$8,083, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2019 and 2018, bank deposits in the amount \$197,299 and \$250,000, 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. MWSC has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

Receivables

All receivables are due from government agencies, businesses and individuals located on Majuro Atoll and are interest free and uncollateralized. The allowance for uncollectible 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. Management determines the adequacy of the allowance for uncollectible accounts based upon review of the aged accounts receivable. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on the specific identification method.

Inventory

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

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

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Prepaid Expenses

Certain payments made to vendors or persons for goods and services reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital Assets

Capital assets 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 two 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 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 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.

Unearned Revenue

Unearned revenue is recorded when cash is received prior to being earned and relates to cash received in advance for utility billings.

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 receipts 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 specifically exempt from this tax.

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

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2019, MWSC implemented the following pronouncements:

- GASB 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.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

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

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 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 May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

Reclassifications

Certain balances in the 2018 presentation has been reclassified to conform to the 2019 presentation. These reclassifications had no impact on operating loss, net position or cash flows as previously reported.

Estimates

The preparation of financial statements in accordance 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 disclosures 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) Inventory

Spare parts inventory at September 30, 2019 and 2018, consists of the following:

	<u>2019</u>	<u>2018</u>
Water	\$ 310,349	\$ 269,287
Sewer	70,066	59,871
Other	<u>110</u>	<u>429</u>
	<u>\$ 380,525</u>	<u>\$ 329,587</u>

(4) Capital Assets

Capital asset activity for the years ended September 30, 2019 and 2018 was as follows:

	2019			
	October 1, 2018	Additions	Retirements	September 30, 2019
Vehicles	\$ 255,173	\$ 17,513	\$ -	\$ 272,686
Machinery and equipment	1,584,519	294,344	-	1,878,863
Office equipment	230,855	6,808	-	237,663
Buildings and leasehold improvements	<u>952,501</u>	<u>-</u>	<u>-</u>	<u>952,501</u>
	<u>3,023,048</u>	<u>318,665</u>	<u>-</u>	<u>3,341,713</u>
Less accumulated depreciation and amortization	<u>(1,490,302)</u>	<u>(353,762)</u>	<u>-</u>	<u>(1,844,064)</u>
	<u>\$ 1,532,746</u>	<u>\$ (35,097)</u>	<u>\$ -</u>	<u>\$ 1,497,649</u>

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

Notes to Financial Statements
September 30, 2019 and 2018

(4) Capital Assets, Continued

	2018			
	October 1, <u>2017</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2018</u>
Vehicles	\$ 255,173	\$ -	\$ -	\$ 255,173
Machinery and equipment	1,340,594	243,925	-	1,584,519
Office equipment	224,655	6,200	-	230,855
Buildings and leasehold improvements	<u>952,501</u>	<u>-</u>	<u>-</u>	<u>952,501</u>
	2,772,923	250,125	-	3,023,048
Less accumulated depreciation and amortization	<u>(1,106,419)</u>	<u>(383,883)</u>	<u>-</u>	<u>(1,490,302)</u>
	<u>\$ 1,666,504</u>	<u>\$ (133,758)</u>	<u>\$ -</u>	<u>\$ 1,532,746</u>

During the year ended September 30, 2018, MWSC was the beneficiary of certain donated capital assets of \$91,678 from foreign donors.

(5) Capital Contributions

Capital contributions for the years ended September 30, 2019 and 2018, consist of the following:

	<u>2019</u>	<u>2018</u>
U.S. Government:		
U.S. Department of the Interior	\$ -	\$ 327,000
Government of Japan	<u>-</u>	<u>91,678</u>
	<u>\$ -</u>	<u>\$ 418,678</u>

(6) Employee Retirement Plan

MWSC together with KAJUR and MEC have implemented a RMI defined contribution retirement savings plan (the Plan) for their respective employees, whereby employees eighteen years and older are eligible to participate upon one year of employment. Plan participants may contribute any amount of their salaries to be matched 100% by their respective employers up to 10% of base salaries. Withdrawal from the Plan occurs upon termination of employment, death, or financial hardship. Plan assets are held in a trust fund administered by a trustee in accordance with the trust agreement. Management has the authority to establish or amend Plan provisions and contribution requirements. MWSC contributed \$13,439 and \$13,917 to Plan participant accounts during the years ended September 30, 2019 and 2018, respectively, and total combined plan assets were \$1,616,246 and \$1,490,260 as of September 30, 2019 and 2018, respectively.

(7) 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.

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

Notes to Financial Statements
September 30, 2019 and 2018

(7) Related Party Transactions, Continued

A summary of related party transactions for the years ended September 30, 2019 and 2018, and related receivable and payable balances as of September 30, 2019 and 2018, is as follows:

	2019			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 323,421	\$ 35,536	\$ 29,776	\$ -
Marshall's Energy Company, Inc. (MEC)	9,069	282,404	30,057	2,957,694
Marshall Islands National Telecommunications Authority	4,699	19,177	5,720	3,470
Marshall Islands Social Security Administration	511	152,008	91	30,682
Majuro Resort, Inc.	50,309	14,966	8,500	89
Others	<u>51,126</u>	<u>306</u>	<u>30,580</u>	<u>75</u>
	<u>\$ 439,136</u>	<u>\$ 504,398</u>	<u>\$ 104,724</u>	<u>\$ 2,991,690</u>
	2018			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 377,628	\$ 14,048	\$ 34,527	\$ 13,467
Marshall's Energy Company, Inc. (MEC)	14,230	471,207	49,751	2,841,192
Marshall Islands National Telecommunications Authority	1,483	25,850	1,155	1,740
Marshall Islands Social Security Administration	414	123,586	1,106	51,379
Majuro Resort, Inc.	44,666	10,665	6,553	2,168
Others	<u>65,399</u>	<u>12,187</u>	<u>3,590</u>	<u>9,956</u>
	<u>\$ 503,820</u>	<u>\$ 657,543</u>	<u>\$ 96,682</u>	<u>\$ 2,919,902</u>

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

During the years ended September 30, 2019 and 2018, MWSC was the recipient of operating subsidies from RepMar as follows:

	<u>2019</u>	<u>2018</u>
Compact of Free Association:		
Public Infrastructure Sector Grant	\$ 89,051	\$ 208,325
Republic of China grant	<u>22,423</u>	<u>-</u>
	<u>\$ 111,474</u>	<u>\$ 208,325</u>

During the year ended September 30, 2018, RepMar made direct payments to a vendor of \$16,250 on behalf of MWSC for a feasibility study for potential future capital improvements associated with the water reservoir. These payments were made from the Compact of Free Association Public Infrastructure Sector Grant. The total amount of the allocated grant amounted to \$1,800,000.

(8) 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, 2019 and 2018, respectively, 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.

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

Notes to Financial Statements
September 30, 2019 and 2018

(9) 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). MWSC is currently delinquent on \$1,000,000 of payments for the franchise agreement dating back to 2003. The delinquent amount is based on a rate of \$100,000 per annum for 10 years. As of September 30, 2019 and 2018, 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.

(10) Contingencies

Going Concern

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates the continuation of MWSC as a going concern. MWSC has incurred losses from operations of \$437,809 and \$917,435 during the years ended September 30, 2019 and 2018, respectively, and used substantial amount of working capital in its operations resulting in a working capital deficiency of \$2,407,960 at September 30, 2019. Furthermore, at September 30, 2019, total liabilities exceeded total assets by \$910,311.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position at September 30, 2019, is dependent upon continued operations of MWSC, which, in turn, is dependent upon MWSC's ability to collect and distribute fresh water and wastewater. Management acknowledges 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., a related party, for electricity usage.

Federal Grants

MWSC 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. MWSC'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 MWSC.

(11) Subsequent Event

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of August 18, 2020, there has been no confirmed case of COVID-19 in the Marshall Islands. MWSC has determined that should the pandemic reach the Marshall Islands, it may negatively impact MWSC's business, results of operations, and financial position and MWSC may become dependent upon the financial support of RepMar. However, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units may be limited. Therefore, while MWSC expects this matter to potentially have a negative impact on its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time.

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, 2019, 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 August 18, 2020.

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.

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 Responses as item 2019-001, which we consider to be material weaknesses.

Compliance and Other Matters

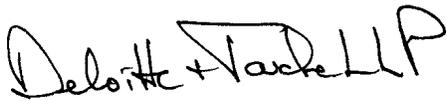
As part of obtaining reasonable assurance about whether MWSC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

August 18, 2020

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

Schedule of Findings and Responses
Year Ended September 30, 2019

Finding No.: 2019-001
Area: Financial Reporting

Criteria: Timely financial reporting should be facilitated by internal control conducive to the preparation and independent review of reconciliations of significant general ledger accounts.

Condition: MWSC did not close fiscal year September 30, 2019 financial information (trial balance and subsidiary ledgers until March 20, 2020. Additionally, during the year ended September 30, 2019, various accounting records do not appear to have been timely processed and updated including, but not limited to the following:

<u>Account Name</u>	<u>Sub ledger</u>	<u>General Ledger</u>	<u>Difference</u>
Water Receivables	\$ 2,105,663	\$ 1,964,276	\$ 141,387
Inventory	\$ 467,685	\$ 369,233	\$ 98,452
Revenue	\$ 1,068,815	\$ 1,076,706	\$ (7,981)

Cause: The cause of the above condition is the lack of timely closing of the year-end financial statements with review and reconciliation of significant general ledger accounts.

Effect: The trial balance and subsidiary ledgers were not timely provided. There were various post-closing and audit entries to correct the financial records.

Recommendation: We recommend management implement internal control procedures to facilitate timely general ledger and subsidiary ledger reconciliation processes.

Auditee Response and Corrective Action Plan: MWSC server computers suffered two unexpected meltdowns. Alternatives were seized to carry out the company's daily CSO while trying to get a new system in place. Quotes were received to get new system in place but was transferred to TAP fund for thorough purchase Order. With the Pandemic declared in the early 2020, thus affecting worldwide trade routes, servers' expectancy arrival delays in due time.

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

Unresolved Prior Year Findings
Year Ended September 30, 2019

There are no unresolved audit findings from prior year audits of MWSC.