

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, 2020 AND 2019

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

Years Ended September 30, 2020 and 2019
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>	23
Unresolved Prior Year Findings	25

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, 2020 and 2019, 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, 2020 and 2019, 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.

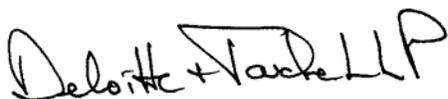
Other Matters

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 October 14, 2021, 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.



October 14, 2021

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, 2020 and 2019

FINANCIAL HIGHLIGHTS

MWSC's net position increased by \$259,965 in 2020 compared to a decrease of \$326,335 in 2019.

Total net operating revenues decreased by \$312,355 from \$1,305,003 in 2019 to \$992,648 in 2020. Within the operating revenues, utility billings decreased by \$142,987 from \$1,076,706 in 2019 to \$933,719 in 2020. Hook-ups and delivery billings decreased by \$38,552 from \$340,656 in 2019 to \$302,104 in 2020. The significant decrease in revenue is due to illegal water hookups, leakage in the water system and less demand in water bulk deliveries also played a role in decreasing billing activities. Furthermore, there has been an additional \$246,808 allowance provided for uncollectable accounts in 2020 compared with \$119,350 in 2019.

Operating expenses increased by \$39,085 from \$1,742,812 in 2019 to \$1,781,897 in 2020. The main contributing factor for the increase in operating expenses is an increase in electricity expense of \$38,388, freight and handling expense of \$29,355, insurance expense of \$22,337, licenses, fees and taxes expense of \$12,598, spare parts expense of \$10,572, office supplies expense of \$5,865, contractual services expense of \$5,690, and repairs and maintenance expense of \$1,458.

The Statement of Cash Flows net increase in cash was \$174,188 in 2020 compared with a net decrease of \$443,734 in 2019. The operating activities of MWSC resulted in a net cash outflow of \$382,237 in 2020 compared to a net cash outflow of \$236,543 in 2019. Cash flows provided by noncapital financing activities amounted to \$609,102 in 2020 compared with \$111,474 in 2019 while cash flows used for capital and related financing activities amounted to \$52,677 in 2020 compared with \$318,665 in 2019.

FINANCIAL ANALYSIS OF MWSC

Net Position

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 for 2020 compared to 2019 and 2018 is presented below:

Summary Statements of Net Position
As of September 30

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Assets:					
Current and other assets	\$ 1,489,902	\$ 852,196	\$ 637,706	74.8%	\$ 1,007,978
Capital assets	1,379,990	1,497,649	(117,659)	(7.9)%	1,532,746
Total assets	2,869,892	2,349,845	520,047	22.1%	2,540,724
Liabilities:					
Current and other liabilities	3,520,238	3,260,156	260,082	8.0%	3,124,700
Net position:					
Net investment in capital assets	1,379,990	1,497,649	(117,659)	(7.9)%	1,532,746
Restricted	105,008	165,261	(60,253)	(36.5)%	604,242
Unrestricted	(2,135,344)	(2,573,221)	437,877	(17.0)%	(2,720,964)
Total net position	\$ (650,346)	\$ (910,311)	\$ 259,965	(28.6)%	\$ (583,976)

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, 2020 and 2019

Net Position, Continued

As indicated above, total assets increased by \$520,047 from \$2,349,845 in 2019 to \$2,869,892 in 2020. This increase was primarily the result of an increase in inventory of \$385,362 from \$380,525 in 2019 to \$766,157, an increase in cash of \$174,188 from \$146,283 in 2019 to \$320,471 in 2020, and an increase in net receivables of \$68,107 from \$179,326 in 2019 to \$247,433 in 2020 offset by a decrease in prepaid expenses of \$97,829 from \$146,062 in 2019 to \$48,233 in 2020.

Total liabilities reflect an increase of \$260,082 from \$3,260,156 in 2019 to \$3,520,238 in 2020. 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.

Change in Net Position

The net position increased by \$259,965 from a net position deficit of \$910,311 in 2019 to \$650,346 in 2020. A summary of MWSC's Statements of Revenues, Expenses, and Changes in Net Position for 2020 compared to 2019 and 2018 is presented below:

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

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Operating:					
Operating revenues	\$ 992,648	\$ 1,305,003	\$ (312,355)	(23.9)%	\$ 1,025,115
Operating expenses	1,781,897	1,742,812	39,085	2.2%	1,942,550
Operating loss	(789,249)	(437,809)	(351,440)	80.3%	(917,435)
Nonoperating:					
Nonoperating revenues	757,902	111,474	646,428	579.9%	238,325
	(31,347)	(326,335)	294,988	(90.4)%	(679,110)
Capital contributions	291,312	-	291,312	100.0%	418,678
Change in net position	<u>\$ 259,965</u>	<u>\$ (326,335)</u>	<u>\$ 586,300</u>	(179.7)%	<u>\$ (260,432)</u>

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

As indicated above, MWSC's operating revenues decreased by \$312,355 from \$1,305,003 in 2019 to \$992,648 in 2020. The decrease in revenue consists of a decrease in utility billings of \$142,987 from 2019 to 2020, hook-up and deliveries of \$38,552 from 2019 to 2020, and other operating revenues of \$3,358 from 2019 to 2020. Net revenues were also impacted a corresponding bad debts expense, which increased by \$127,458 from 2019 to 2020.

Nonoperating revenues represent operating subsidies and grants received. MWSC received operating subsidies of \$757,902 in 2020 compared with \$111,474 in 2019. Of these amounts, \$135,525 and \$89,051, respectively, were received from RepMar under the Compact Free Association Public Infrastructure Sector Grant for capital upgrade projects with the remaining amounts received from other donor governments through RepMar, namely \$622,377 in 2020 and \$22,423 in 2019 from the Republic of China Taiwan. The grants received in 2020 of \$622,377 are to fund the upgrade of existing Saltwater and Sanitary Sewer Pump S Stations, Water Treatment Plant C, Water Treatment Plant A and Safety Tools and Equipment.

In addition, MWSC was the recipient of capital contributions of \$291,312 in 2020 from the U.S. Department of the Interior under separate technical assistance grant programs. 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, 2020 and 2019

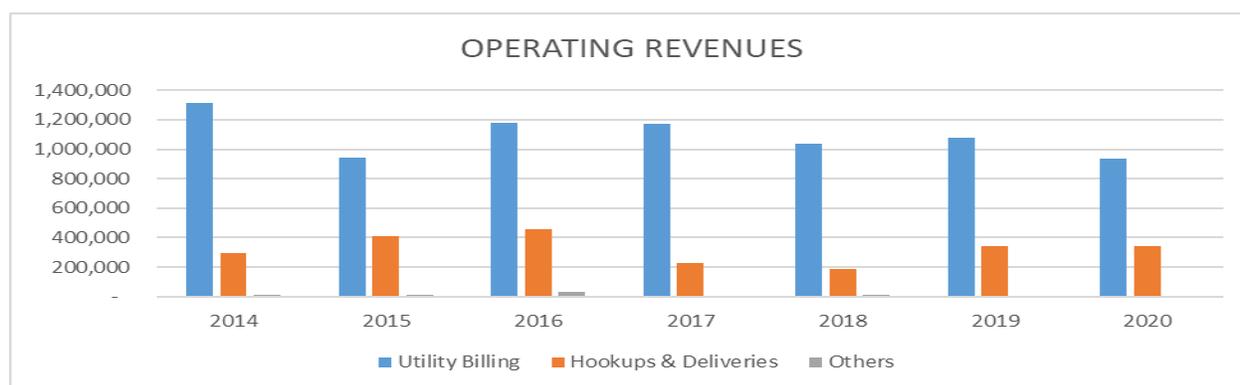
Change in Net Position, Continued

Below is the summary of the major components of operating revenues in 2020 compared to 2019 and 2018.

Summary of Revenues by Component
Years Ended September 30

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Revenues:					
Utility billings	\$ 933,719	\$ 1,076,706	\$ (142,987)	(13.3)%	\$ 1,036,386
Hook-up and deliveries	302,104	340,656	(38,552)	(11.3)%	190,297
Other	3,633	6,991	(3,358)	(48.0)%	10,738
	<u>1,239,456</u>	<u>1,424,353</u>	<u>(184,897)</u>	<u>(13.0)%</u>	<u>1,237,421</u>
Uncollectible accounts	(246,808)	(119,350)	(127,458)	106.8%	(212,306)
Net revenues	<u>\$ 992,648</u>	<u>\$ 1,305,003</u>	<u>\$ (312,355)</u>	<u>(23.9)%</u>	<u>\$ 1,025,115</u>

The graph below shows the major components of operating revenues for 2020 compared with the years 2014 to 2019.



Operating expenses increased by \$39,085 from \$1,742,812 in 2019 to \$1,781,897 in 2020. Below is the summary of the major components of operating expenses in 2020 compared to 2019 and 2018:

Summary of Expenses by Component
Years Ended September 30

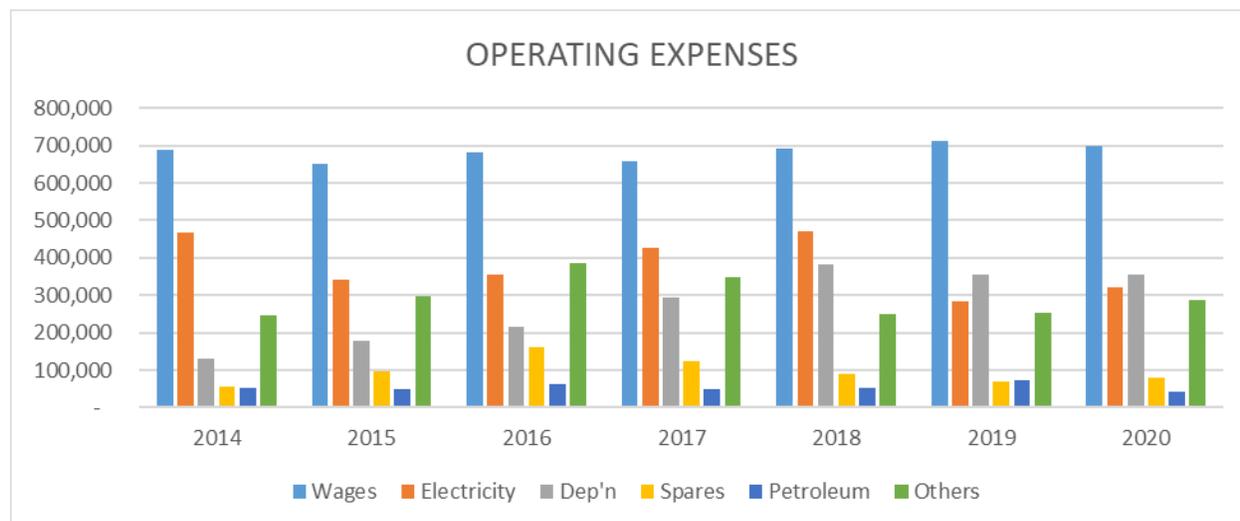
	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Expenses:					
Salaries and wages	\$ 698,272	\$ 712,395	\$ (14,123)	(2.0)%	\$ 692,923
Depreciation	354,040	353,762	278	0.1%	383,883
Electricity	320,792	282,404	38,388	13.6%	471,207
Spare parts	80,321	69,749	10,572	15.2%	90,979
POL	42,846	72,114	(29,268)	(40.6)%	53,507
Others	285,626	252,388	33,238	13.2%	250,051
	<u>\$ 1,781,897</u>	<u>\$ 1,742,812</u>	<u>\$ 39,085</u>	<u>2.2%</u>	<u>\$ 1,942,550</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, 2020 and 2019

Change in Net Position, Continued

The graph below shows the major components of operating expenses for 2020 compared with the years 2014 to 2019.



Management Discussion and Analysis for the ended September 30, 2019 is set forth in MWSC's report on the audit of the financial statements, which is dated August 18, 2020. Such Management's Discussion and an Analysis explains the major factors impacting the 2019 financial statements and can be obtained from MWSC's General Manager via the contact information below.

CAPITAL ASSETS AND DEBT

Net capital assets decreased by \$117,659 in 2020 as a result of the acquisition of machinery and equipment of \$207,108 and office equipment of \$29,273 less accumulated depreciation for the year of \$354,040. A summary of MWSC's capital assets for 2020 compared to 2019 and 2018 is presented below.

Summary of Capital Assets
As of September 30

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Vehicles	\$ 272,686	\$ 272,686	\$ -	0.0%	\$ 255,173
Machinery and equipment	2,085,971	1,878,863	207,108	11.0%	1,584,519
Office equipment	266,936	237,663	29,273	12.3%	230,855
Buildings and improvements	952,501	952,501	-	0.0%	952,501
	<u>3,578,094</u>	<u>3,341,713</u>	<u>236,381</u>	<u>7.1%</u>	<u>3,023,048</u>
Accumulated depreciation	<u>(2,198,104)</u>	<u>(1,844,064)</u>	<u>(354,040)</u>	<u>19.2%</u>	<u>(1,490,302)</u>
	<u>\$ 1,379,990</u>	<u>\$ 1,497,649</u>	<u>\$ (117,659)</u>	<u>(7.9)%</u>	<u>\$ 1,532,746</u>

Additional information on MWSC's capital assets is disclosed within note 4 to the accompanying financial statements. MWSC did not incur and has no related long-term debt.

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, 2020 and 2019

FUTURE OUTLOOK ON SUSTAINABILITY

Future sustainability for Majuro Water and Sewer Company will require three major changes:

1. Increase in our customer base. Currently we have some 1,651 water customers and 2,535 sewer customers out of a possible 4,186. 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 14 years ago. MWSC will prepare tariff reform proposal based on present and future needs for Board approval.

The Marshall Islands is currently not being directly impacted by the current COVID-19 pandemic being experienced elsewhere worldwide. On October 28, 2020, one confirmed case was identified in the Marshall Islands that was subsequently isolated and contained. On November 17, 2020, an additional three cases were identified and which were isolated and contained. No community transmission has been identified and, as such, MWSC have been able to continue operations as usual. In the event that community transmission occurs, we expect MWSC to feel the impact of such though delayed hook-ups and delivery of water and as result, reliance on RepMar for operational subsidies.

MWSC'S FOCUS IN THE COMING YEAR

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

1. 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.
2. Establishing a Statement of Corporate Intent that will cover current fiscal year and the next two fiscal years.
3. Establishing a Business Plan that will cover current fiscal year and the next two fiscal years.
4. Hire an Attorney to collect long outstanding debts and other legal issues.
5. 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 GPS equipment and training.

**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, 2020 and 2019

MWSC'S FOCUS IN THE COMING YEAR, CONTINUED

6. MAP Grant awarded from DOI will be used for Sanitation Cleaning Program
7. JICA Water Project

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 m 96960.

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

Statements of Net Position
September 30, 2020 and 2019

	2020	2019
<u>ASSETS</u>		
Current assets:		
Cash	\$ 320,471	\$ 146,283
Receivables:		
Utility	2,270,098	2,156,115
Affiliates	160,312	104,724
Grants	148,800	-
Other	28,631	32,087
	2,607,841	2,292,926
Less allowance for doubtful accounts	(2,360,408)	(2,113,600)
	247,433	179,326
Inventory	766,157	380,525
Prepaid expenses	48,233	146,062
Total current assets	1,382,294	852,196
Noncurrent assets:		
Deposits for capital asset acquisitions	107,608	-
Capital assets, net	1,379,990	1,497,649
Total noncurrent assets	1,487,598	1,497,649
	\$ 2,869,892	\$ 2,349,845
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 139,949	\$ 153,677
Payable to affiliates	3,250,866	2,991,690
Unearned revenue	86,935	62,921
Other accrued liabilities	42,488	51,868
Total current liabilities	3,520,238	3,260,156
Commitment and contingencies		
Net position:		
Net investment in capital assets	1,379,990	1,497,649
Restricted	105,008	165,261
Unrestricted	(2,135,344)	(2,573,221)
Total net position	(650,346)	(910,311)
	\$ 2,869,892	\$ 2,349,845

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Utility billings	\$ 933,719	\$ 1,076,706
Hook-up and deliveries	302,104	340,656
Other	3,633	6,991
Total operating revenues	<u>1,239,456</u>	<u>1,424,353</u>
Less uncollectable accounts	<u>(246,808)</u>	<u>(119,350)</u>
Total net operating revenues	<u>992,648</u>	<u>1,305,003</u>
Operating expenses:		
Salaries, wages and benefits	698,272	712,395
Depreciation and amortization	354,040	353,762
Electricity	320,792	282,404
Spare parts	80,321	69,749
Licenses, fees and taxes	53,297	40,699
Freight and handling	47,808	18,453
Insurance	46,821	24,484
Petroleum, oil and lubricants	42,846	72,114
Communications	27,393	33,244
Contractual services	22,955	17,265
Office supplies	21,831	15,966
Entertainment and food	18,456	17,698
Repairs and maintenance	8,658	7,200
Travel	7,613	28,202
Chlorine	6,084	7,098
Rental	4,500	20,794
Uniforms	992	1,069
Miscellaneous	19,218	20,216
Total operating expenses	<u>1,781,897</u>	<u>1,742,812</u>
Operating loss	<u>(789,249)</u>	<u>(437,809)</u>
Nonoperating revenues:		
Operating subsidies from RepMar	<u>757,902</u>	<u>111,474</u>
Loss before capital contributions	<u>(31,347)</u>	<u>(326,335)</u>
Capital contributions	<u>291,312</u>	<u>-</u>
Change in net position	259,965	(326,335)
Net position at beginning of year	<u>(910,311)</u>	<u>(583,976)</u>
Net position at end of year	<u>\$ (650,346)</u>	<u>\$ (910,311)</u>

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, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 1,097,355	\$ 1,225,885
Cash payments to suppliers for goods and services	(816,633)	(699,313)
Cash payments to employees for services	(662,959)	(763,115)
Net cash used for operating activities	(382,237)	(236,543)
Cash flows from noncapital financing activities:		
Operating grants received	609,102	111,474
Cash flows from capital and related financing activities:		
Capital contributions received	291,312	-
Acquisition of capital assets	(343,989)	(318,665)
Net cash used for capital and related financing activities	(52,677)	(318,665)
Net change in cash	174,188	(443,734)
Cash at beginning of year	146,283	590,017
Cash at end of year	\$ 320,471	\$ 146,283
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (789,249)	\$ (437,809)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	354,040	353,762
Uncollectable accounts	246,808	119,350
(Increase) decrease in assets:		
Receivables:		
Utility	(113,983)	(197,133)
Affiliates	(55,588)	(8,042)
Other	3,456	(10,413)
Inventory	(385,632)	(50,938)
Prepaid expenses	97,829	(140,776)
Increase (decrease) in liabilities:		
Accounts payable	(13,728)	48,908
Payable to affiliates	259,176	71,788
Unearned revenue	24,014	17,120
Other accrued liabilities	(9,380)	(2,360)
Net cash used for operating activities	\$ (382,237)	\$ (236,543)

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, 2020 and 2019

(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, wastewater 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, wastewater and sewer system. The term of both the lease and the franchise was for a 10 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, 2020 and 2019

(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, 2020 and 2019, MWSC does not have nonexpendable restricted net position. 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, 2020 and 2019, MWSC has expendable net position as follows:

	<u>2020</u>	<u>2019</u>
Republic of the Marshall Islands:		
Compact of Free Association Public Infrastructure Sector		
Grants:		
Majuro Water and Sewer Capital Upgrade Projects	\$ -	\$ 164,134
U.S. Government:		
U.S. Department of the Interior:		
Airport Runway Cleanliness and Efficiency Program	-	1,127
Geospatial Asset Location and Cataloging Project	38,512	-
Water Main Repair and Restoration Program	<u>66,496</u>	<u>-</u>
	<u>\$ 105,008</u>	<u>\$ 165,261</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.

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.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

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, 2020 and 2019, cash was \$320,471 and \$146,283, respectively, and the corresponding bank balances were \$339,024 and \$201,647, respectively. Of the bank balances, \$337,033 and \$197,299, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$1,991 and \$4,348, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2020 and 2019, bank deposits in the amount \$250,000 and \$197,299, 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).

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

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

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.

New Accounting Standards

During the year ended September 30, 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, 91, 92 and 93 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. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. Except for paragraphs 11b, 13, and 14, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2021. The requirement in paragraphs 11b, 13, and 14 are effective for fiscal year September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

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, 2020 and 2019, consists of the following:

	<u>2020</u>	<u>2019</u>
Water	\$ 469,627	\$ 310,349
Sewer	296,530	70,066
Other	<u>-</u>	<u>110</u>
	<u>\$ 766,157</u>	<u>\$ 380,525</u>

(4) Capital Assets

Capital asset activity for the years ended September 30, 2020 and 2019 was as follows:

	<u>2020</u>			
	<u>October 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2020</u>
Vehicles	\$ 272,686	\$ -	\$ -	\$ 272,686
Machinery and equipment	1,878,863	207,108	-	2,085,971
Office equipment	237,663	29,273	-	266,936
Buildings and leasehold improvements	<u>952,501</u>	<u>-</u>	<u>-</u>	<u>952,501</u>
	<u>3,341,713</u>	<u>236,381</u>	<u>-</u>	<u>3,578,094</u>
Less accumulated depreciation and amortization	<u>(1,844,064)</u>	<u>(354,040)</u>	<u>-</u>	<u>(2,198,104)</u>
	<u>\$ 1,497,649</u>	<u>\$ (117,659)</u>	<u>\$ -</u>	<u>\$ 1,379,990</u>

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

Notes to Financial Statements
September 30, 2020 and 2019

(4) Capital Assets, Continued

	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>
	3,023,048	318,665	-	3,341,713
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>

(5) Capital Contributions

Capital contributions for the years ended September 30, 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
U.S. Government:		
U.S. Department of the Interior:		
Geospatial Asset Location and Cataloging Project	\$ 83,225	\$ -
Water Main Repair and Restoration Program	<u>208,087</u>	<u>-</u>
	<u>\$ 291,312</u>	<u>\$ -</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 \$12,053 and \$13,439 to Plan participant accounts during the years ended September 30, 2020 and 2019, respectively, and total combined plan assets were \$1,778,648 and \$1,616,246 as of September 30, 2020 and 2019, 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, 2020 and 2019

(7) Related Party Transactions, Continued

A summary of related party transactions for the years ended September 30, 2020 and 2019, and related receivable and payable balances as of September 30, 2020 and 2019, is as follows:

	2020			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 393,883	\$ 103,574	\$ 54,834	\$ 16,742
Marshall's Energy Company, Inc.	12,744	320,792	31,458	3,186,741
Marshall Islands National Telecommunications Authority	1,831	22,188	5,679	1,035
Marshall Islands Social Security Administration	828	132,799	48	43,888
Majuro Resort, Inc.	57,930	4,710	15,864	1,563
Others	<u>62,400</u>	<u>154,991</u>	<u>52,429</u>	<u>897</u>
	<u>\$ 529,616</u>	<u>\$ 739,054</u>	<u>\$ 160,312</u>	<u>\$ 3,250,866</u>
	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.	9,069	282,404	30,057	2,957,374
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>51,127</u>	<u>307</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>

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

During the years ended September 30, 2020 and 2019, MWSC was the recipient of operating subsidies from RepMar as follows:

	<u>2020</u>	<u>2019</u>
Compact of Free Association Public Infrastructure Sector Grants:		
Majuro Water and Sewer Capital Upgrade Projects	\$ 135,525	\$ 89,051
Republic of China Capital Projects Fund	<u>622,377</u>	<u>22,423</u>
	<u>\$ 757,902</u>	<u>\$ 111,474</u>

As of September 30, 2020, the amount of \$148,800 relating to operating subsidies is due from RepMar.

(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, 2020 and 2019, 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, 2020 and 2019

(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, 2020 and 2019, 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 services being extended to MWSC from the Marshalls Energy Company, Inc. at more favorable terms and conditions than those afforded to third parties 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. During the years ended September 30, 2020 and 2019, MWSC incurred losses from operations of \$789,249 and \$437,809, respectively. During the years ended September 30, 2020 and 2019, the operations of MWSC were funded by appropriations from the Nitijela of RepMar of \$757,902 and \$111,474, respectively. In addition, MWSC has used a substantial amount of working capital in its operations resulting in a working capital deficiency at September 30, 2020 and 2019 of \$2,137,944 and \$2,407,960, respectively.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position at September 30, 2020, 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.

Litigation

MWSC is a party to legal proceedings. MWSC's management believes that the provision for any liability will not be material to the accompanying financial statements.

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

Notes to Financial Statements
September 30, 2020 and 2019

(11) COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended the containment and mitigation measures worldwide. On October 28, 2020, one confirmed case was identified in the Marshall Islands that was subsequently isolated and contained. On November 17, 2020, an additional three cases were identified and which were isolated and contained. As of October 14, 2021, no community transmission has been identified. MWSC has determined that should community transmission occur within the Marshall Islands, it may negatively impact MWSC's business, results of operations, 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 maybe 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 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, 2020, 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 October 14, 2021.

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) as a basis for designing 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.

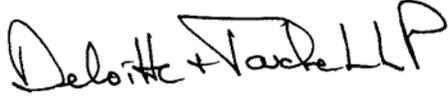
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 financial statements. 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*.

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 + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

October 14, 2021

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

Unresolved Prior Year Findings
Year Ended September 30, 2020

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