

*Financial Statements and Report on Internal Control
and Compliance*

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

*Year ended September 30, 2021
with Report of Independent Auditors*



Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Financial Statements and Report on Internal Control and Compliance

Year ended September 30, 2021

Contents

Report of Independent Auditors.....	1
Audited Basic Financial Statements	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements.....	7
Report on Internal Control and Compliance	
Report of Independent Auditors 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>	
	19
Schedule of Findings and Responses	21

Report of Independent Auditors

Board of Directors
Majuro Water and Sewer Company, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of Majuro Water and Sewer Company, Inc. (MWSC), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise MWSC's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 qualified audit opinion.

Basis for Qualified Opinion

We did not observe the taking of the physical inventories at September 30, 2021 (stated at \$848,919) since that date was prior to the time we were initially engaged as auditors for MWSC. We were unable to satisfy ourselves about inventory quantities by means of other auditing procedures.

Because of inadequacies in MWSC's accounting records, we are unable to form an opinion regarding the amount of utility billings revenue in the accompanying statement of revenues, expenses, and changes in net position (stated at \$984,234).

Opinion

In our opinion, except for the matters described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of MWSC as of September 30, 2021, and the changes in its net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2025, 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.

Ernst + Young

May 9, 2025

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Net Position

September 30, 2021

Assets

Current assets:

Cash	\$ 279,998
Accounts receivable, net	216,578
Due from RepMar	223,200
Inventory	848,919
Prepaid expenses	<u>44,896</u>
Total current assets	1,613,591

Noncurrent assets:

Capital assets, net of accumulated depreciation	<u>1,224,819</u>
	<u><u>\$ 2,838,410</u></u>

Liabilities and Net Position

Current liabilities:

Accounts payable	\$ 165,206
Payable to affiliates	3,615,237
Unearned revenue	57,828
Other accrued liabilities	<u>68,186</u>
Total current liabilities	<u>3,906,457</u>

Commitment and contingencies

Net position:

Net investment in capital assets	1,224,819
Restricted	52,654
Unrestricted	(<u>2,345,520</u>)
Total net position	(<u>1,068,047</u>)
	<u><u>\$ 2,838,410</u></u>

See accompanying notes.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2021

Operating revenues:	
Utility billings	\$ 984,234
Hook-up and deliveries	184,146
Other	<u>5,108</u>
Total operating revenues	1,173,488
Less uncollectable accounts	(<u>98,956</u>)
Total net operating revenues	<u>1,074,532</u>
Operating expenses:	
Salaries, wages and benefits	700,639
Electricity	327,761
Depreciation	305,389
Spare parts	63,810
Petroleum, oil and lubricants	48,374
Contractual services	46,223
Insurance	34,715
Repairs and maintenace	34,153
Communications	26,867
Office supplies	20,635
Entertainment	19,350
Chlorine	19,313
License fees and taxes	8,974
Freight and handling	7,706
Uniforms	5,943
Travel	3,998
Miscellaneous	<u>41,583</u>
Total operating expenses	<u>1,715,433</u>
Operating loss	(640,901)
Nonoperating revenues:	
Operating subsidies from RepMar	<u>223,200</u>
Change in net position	(417,701)
Net position at beginning of year	(<u>650,346</u>)
Net position at end of year	<u><u>\$ (1,068,047)</u></u>

See accompanying notes.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Statement of Cash Flows

Year Ended September 30, 2021

Cash flows from operating activities:	
Cash received from customers	\$ 1,076,280
Cash payments to suppliers for goods and services	(432,846)
Cash payments to employees for services	(641,297)
Net cash provided by operating activities	<u>2,137</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(42,610)
Net change in cash	(40,473)
Cash at beginning of year	<u>320,471</u>
Cash at end of year	<u><u>\$ 279,998</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$(640,901)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	305,389
Provision for doubtful accounts	98,956
Change in assets and liabilities:	
Receivables:	
Utility	(295,091)
Affiliates	225,996
Other	994
Inventory	(82,762)
Prepaid expenses	3,337
Accounts payable	25,257
Payable to affiliates	364,371
Unearned revenue	(29,107)
Other accrued liabilities	<u>25,698</u>
Net cash provided by operating activities	<u><u>\$ 2,137</u></u>

See accompanying notes.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements

Year ended September 30, 2021

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, replacing the previously executed exclusive franchise. 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.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

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.

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, 2021, 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, 2021, MWSC has restricted expendable net position as follows:

U.S. Government:

U.S. Department of the Interior:

Geospatial Asset Location and Cataloging Project	\$37,512
Water Main Repair and Restoration Program	<u>15,142</u>
	<u>\$52,654</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.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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.

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 balance sheet, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2021, the carrying amount of the MWSC's total cash was \$279,998 and the corresponding bank balance was \$312,593, of which \$308,767 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amount of \$3,826 being maintained in a financial institution not subject to depository insurance. As of September 30, 2021, bank deposits in the amount of \$250,000 was 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.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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

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.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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.

Recently Adopted Accounting Pronouncements

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed 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, MWSC's management has elected to postpone implementation of these statements.

During the year ended September 30, 2021, MWSC implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves 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.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending September 30, 2022.

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

Upcoming Accounting Pronouncements

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 the 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 the fiscal year ending September 30, 2022.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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 the fiscal year ending September 30, 2023.

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 are effective for the fiscal year ending 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 the 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, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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 the fiscal year ending September 30, 2023.

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for the 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.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

3. Accounts Receivable

Accounts receivable as of September 30, 2021, net of allowance for uncollectible accounts, consist of the following:

Utility	\$2,565,189
Affiliates	83,117
Other	<u>27,636</u>
	2,675,942
Less allowance for uncollectible accounts	<u>(2,459,364)</u>
	<u>\$ 216,578</u>

4. Inventories

Spare parts inventory as of September 30, 2021, consists of the following:

Water	\$ 438,789
Sewer	406,800
Other	<u>3,330</u>
	<u>\$ 848,919</u>

5. Capital Assets

Capital asset activities for the year ended September 30, 2021, were as follows:

	October <u>1, 2020</u>	<u>Additions</u>	Transfers and <u>Disposals</u>	September <u>30, 2021</u>
Depreciable capital assets:				
Machinery and equipment	\$2,085,971	\$ 19,460	\$ ---	\$2,105,431
Building leasehold improvements	952,501	99,538	---	1,052,039
Vehicles	272,686	24,995	---	297,681
Office equipment	<u>266,936</u>	<u>6,225</u>	<u>---</u>	<u>273,161</u>
	3,578,094	150,218	---	3,728,312
Less accumulated depreciation	<u>(2,198,104)</u>	<u>(305,389)</u>	<u>---</u>	<u>(2,503,493)</u>
	<u>\$1,379,990</u>	<u>\$(155,171)</u>	<u>\$ ---</u>	<u>\$1,224,819</u>

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

6. Employee Retirement Plan

MWSC has implemented an RMI defined contribution retirement savings plan (the Plan) for its 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 \$2,460 to Plan participant accounts during the year ended September 30, 2021, and total combined plan assets were \$176,675 as of September 30, 2021.

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.

A summary of related party transactions for the year ended September 30, 2021, and related receivable and payable balances as of September 30, 2021, is as follows:

	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$297,874	\$ 16,762	\$ 4,612	\$ 29,384
Marshall's Energy Company, Inc.	6,424	347,645	33,094	3,492,250
Marshall Islands National Telecommunications Authority	8,552	22,540	---	4,567
Marshall Islands Social Security Administration	578	167,043	87	84,096
Majuro Resort, Inc.	41,299	5,746	20,823	2,191
Others	<u>32,301</u>	<u>398</u>	<u>24,501</u>	<u>2,749</u>
	<u>\$387,028</u>	<u>\$560,134</u>	<u>\$83,117</u>	<u>\$3,615,237</u>

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

During the year ended September 30, 2021, MWSC was appropriated operating subsidies of \$223,200 from RepMar. The source of funding was the Republic of China Capital Projects Fund. The operating subsidy was received by MWSC subsequent to the year ended September 30, 2021. Accordingly, the amount of \$223,200 represents a receivable due from RepMar as of September 30, 2021.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

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, 2021, 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.

9. Commitment and Contingencies

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, 2021, 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. for electricity usage 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.

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 year ended September 30, 2021, MWSC incurred a loss from operations of \$640,901, which was funded in part by an operating subsidy of \$223,200 from RepMar. In addition, MWSC has used a substantial amount of working capital in its operations resulting in a working capital deficiency at September 30, 2021 of \$2,292,866.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

9. Commitment and Contingencies, continued

Going Concern, continued

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position at September 30, 2021, 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.

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.

Report of Independent Auditors 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 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 the business-type activities of Majuro Water and Sewer Company, Inc. (MWSC), which comprise the statement of net position as of September 30, 2021, 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 May 9, 2025. Our report was qualified due to the lack of inventory observation and the inadequacy of accounting records over utility billings revenue.

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 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 items 2021-001 and 2021-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MWSC's financial statements are free of 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*.

MWSC's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on MWSC's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. MWSC's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

May 9, 2025

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, 2021

Finding No. 2021-001

Utility Billings Revenue

Criteria: Accounting principles prescribed by the Governmental Accounting Standards Board (GASB) requires revenues must be recognized when they are both measurable and available for the entity. Proper supporting documentation, including detailed subledger records, is required to substantiate revenue recognition and ensure compliance with governmental financial reporting standards.

Condition: During the year ended September 30, 2021, MWSC recorded utility billings revenue of \$984,234 in the financial statements; however, they did not provide subledger details supporting these amounts. As a result, we were unable to verify the accuracy, completeness, and existence of the reported revenue.

Cause: The client did not maintain or provide the necessary subledger details for utility billings, which prevented us from performing substantive testing on revenue transactions.

Effect: Without subledger details, we were unable to obtain sufficient, appropriate audit evidence to verify the accuracy and completeness of utility revenue. This could lead to a potential misstatement in the financial statements and noncompliance with GASB revenue recognition requirements.

Recommendation: We recommend that the client establish and maintain detailed subledger records for utility billings, ensuring traceability of transactions and adequate support for revenue recognition. Additionally, internal controls should be implemented to ensure timely provision of such records for audit purposes.

Auditee Response and Corrective Action Plan:

MWSC management acknowledges the audit finding concerning the absence of subledger documentation supporting utility billings revenue. This issue was primarily the result of procedural and documentation deficiencies under previous management. At the time, there were no established internal controls or consistent processes in place to ensure the proper recording and retention of subledger-level data related to utility billings.

Although the revenue amounts reported were based on system-generated billing summaries, the lack of supporting subledger details limited the audit team's ability to validate the accuracy, completeness, and existence of the reported figures.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses, continued

Finding No. 2021-001, continued

Utility Billings Revenue, continued

Auditee Response and Corrective Action Plan, continued:

To address this issue, MWSC is implementing a series of corrective measures, including the adoption of formal financial record management policies and procedures. We are currently strengthening our billing and revenue recording systems and actively evaluating alternative billing platforms with simplified functionalities that are more suitable for staff use. Going forward, subledger controls will be established, documentation standards will be enforced, and targeted training will be provided to staff to ensure compliance.

These actions aim to ensure all future financial reporting is supported by traceable, verifiable records in alignment with GASB standards. MWSC is committed to fully resolving this issue and ensuring it does not recur in future financial years.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses, continued

Finding No. 2021-002

Receivables - Allowance for Doubtful Accounts

Criteria: Accounting principles prescribed by GASB requires estimates for the allowance for doubtful accounts should be based on reasonable and supportable data, including historical collection trends, aging analysis, and known risks. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework also emphasizes the importance of using relevant, data-driven information in the development of financial estimates and judgments.

Condition: During our audit, we identified that MWSC calculated the increase in the allowance for doubtful accounts by using a flat percentage applied to total accounts receivable, rather than basing the estimate on historical collection data, aging of receivables, or other relevant risk factors. This approach does not reflect MWSC's actual experience with uncollectible accounts and resulted in a materially overstated allowance where the allowance of \$2,743,126 exceeded the preliminary receivables balance of \$2,648,113. An audit adjustment of \$283,762 was proposed to correct this misstatement.

Cause: The use of a flat percentage method may be due to the lack of formal procedures for calculating the allowance, limited access to or analysis of historical receivable data, or lack of staff training or awareness regarding proper estimation techniques.

Effect: Using a straight percentage without analysis of historical data increases the risk of misstatement of financial statements, inaccurate financial reporting, which can impact decision-making and external reporting, noncompliance with GASB standards, and reduced auditability and transparency in the estimation process.

Recommendation: We recommend that management develop and implement a formal methodology for calculating the allowance for doubtful accounts based on historical collection experience, aging of receivables, and other relevant risk indicators. Furthermore, we recommend management document the methodology, assumptions, and rationale used in determining the allowance each reporting period and provide training to staff responsible for the calculation to ensure compliance with GASB and sound internal control practices.

Auditee Response and Corrective Action Plan:

MWSC also acknowledges the finding related to the estimation of the allowance for doubtful accounts. We recognize that the methodology used during the reporting period did not fully align with GASB and COSO standards due to significant data limitations caused by a system crash in 2021. This event severely impacted the integrity of historical customer data and our ability to perform accurate aging and collection trend analyses.

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses, continued

Finding No. 2021-002, continued

Receivables - Allowance for Doubtful Accounts, continued

Auditee Response and Corrective Action Plan, continued:

In 2024, MWSC launched an initiative to address longstanding receivables by reaching out to customers with unpaid balances. This process revealed that many customers had been informally repaying prior-year debts through monthly or bi-weekly allotments arrangements that were not previously formalized or documented due to administrative gaps. Further assessments have shown that many customers are actively making payments without formal agreements in place, suggesting that the allowance for doubtful accounts may be overstated.

To correct and prevent this issue from recurring, MWSC is implementing the following actions:

- Conducting a full reconciliation and data validation/analysis of customer accounts to correct and update receivables data.
- Formalizing customer allotment payment arrangements through signed agreements and proper system entry.
- Establishing procedures for routine monitoring of aging schedules and historical payment trends.
- Providing training for finance and billing staff on allowance estimation practices aligned with applicable standards.
- Exploring system improvements or replacements to ensure more reliable and accurate data capture and reporting.

MWSC is fully committed to ensuring these issues are addressed comprehensively and will not recur in future financial years. These initiatives form part of our broader effort to strengthen internal controls, enhance financial transparency, and support audit readiness.

*The Auditor's Communication With Those
Charged With Governance*

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2021



May 9, 2025

Board of Directors
Majuro Water and Sewer Company, Inc.

We have performed an audit of the financial statements of the Majuro Water and Sewer Company, Inc. (MWSC), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2021, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and have issued our report thereon dated May 9, 2025.

This report summarizes our communications with those charged with governance as required by our professional standards to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process.

REQUIRED COMMUNICATIONS

Professional standards require the auditor to provide the Board of Directors (the Board) with additional information regarding the scope and results of the audit that may assist the Board in overseeing the financial reporting and disclosure processes which the management of MWSC is responsible. We summarize these required communications as follows:

Overview of the planned scope and timing of the audit

Our audit scope and timing is consistent with the plan communicated in our engagement letter dated March 27, 2023 and at our audit planning meeting with management.

Auditors' Responsibilities under Auditing Standards Generally Accepted in the United States (US GAAS) and Generally Accepted Government Auditing Standards (GAGAS)

The financial statements are the responsibility of MWSC's management as prepared with the oversight of those charged with governance. Our audit was designed in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion.

An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

Our responsibilities are included in our audit engagement letter.

Changes to the audit strategy, timing of the audit and significant risks identified

Our audit strategy is consistent with the plan communicated during the July 2023 meeting.

Matters relevant to our evaluation of the entity's ability to continue as a going concern

We did not identify any events or conditions that led us to believe there was substantial doubt about MWSC's ability to continue as a going concern.

Our views about the qualitative aspects of the entity's significant accounting practices, including:

- **Accounting policies**
- **Accounting estimates**

Management has not selected or changed any significant policies or changed the application of those policies in the current year. A discussion of significant accounting policies and sensitive accounting estimates have been included in Note 2 of the financial statements.

We are not aware of any significant policies used by MWSC in controversial or emerging areas or for which there is a lack of authoritative guidance.

We determined that those charged with governance are informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

Management's judgment is called upon in:

- Preparing budgets that are used to administer and monitor MWSC's operations. These budgets include determining how existing financial resources will be used in MWSC's operations.
- Evaluating whether there are indicators that the carrying value of MWSC's long-lived assets is impaired.

- Determining the adequacy of the allowance for doubtful accounts and inventory obsolescence.
- Determining the reasonableness of economic useful lives assigned to depreciable assets.

Related party relationships and transactions

A discussion of related party relationships and transactions is included in Note 7 of the financial statements. We noted no significant matters regarding MWSC's relationships and transactions with related parties.

Changes to the terms of the audit with no reasonable justification for the change

We are not aware of any matters that require communication.

Significant unusual transactions

We are not aware of any significant unusual transactions executed by MWSC.

Difficult or contentious matters subject to consultation outside of the audit team

None.

Material corrected misstatements related to accounts and disclosures

Refer to "Management Representations Letter" in Appendix A.

Uncorrected misstatements related to accounts and disclosures, considered by management to be immaterial

Refer to "Management Representations Letter" in Appendix A.

Significant deficiencies and material weaknesses in internal control over financial reporting

We have issued our Report of Independent Auditors 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* dated May 9, 2025. In that report, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Fraud and noncompliance with laws and regulations (illegal acts)

We are not aware of any matters that require communication.

Obtain information relevant to the audit

Inquiries regarding matters relevant to the audit were performed during the July 2023 meeting during the audit.

Independence matters

We are not aware of any matters that in our professional judgment would impair our independence.

New accounting pronouncements

Management is still assessing the impact of adopting the following GASB statements:

- GASB Statement No. 91
- GASB Statement No. 94
- GASB Statement No. 96
- GASB Statement No. 99
- GASB Statement No. 100
- GASB Statement No. 101

Significant issues discussed with management in connection with the auditor's initial appointment or recurring retention

We are not aware of any matters that require communication.

Disagreements with management and significant difficulties encountered in dealing with management when performing the audit

There were no material disagreements with MWSC's management on financial accounting and reporting matters during the audit.

Management's consultations with other accountants

We are not aware of any consultations made by management with other accountants or specialists.

Other material written communications with management

None.

Other matters

There are no other matters arising from the audit that are, in our judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

Representations from management

We have obtained from management a representations letter related to the audit and a copy of the management representations letter is included in Appendix A.

AICPA ethics ruling regarding third-party service providers

From time to time, and depending on the circumstances, (1) we may subcontract portions of the Audit Services to other EY firms, who may deal with MWSC or its affiliates directly, although EY alone will remain responsible to you for the Audit Services and (2) personnel (including non-certified public accountants) from an affiliate of EY or another EY firm or any of their respective affiliates, or from independent third-party service providers (including independent contractors), may participate in providing the Audit Services. In addition, third party service providers may perform services for EY in connection with the Audit Services.

Engagement team's involvement with preparation of the financial statements

Under *Government Auditing Standards* 2018 Revisions, Chapter 3 General Standards, Paragraph 3.73 Requirements for Performing Non-audit Services explains that the audit team should make consideration of management's ability to effectively oversee the non-audit (or non-attest) services to be performed. The engagement team should determine that the audited entity has designated an individual(s) who possesses suitable skill, knowledge or experience and that the individual understands the services to be performed sufficiently to oversee them. The engagement team should document consideration of management's ability to oversee non-audit services to be performed.

The engagement team believes that this significant threat is reduced to an acceptable level upon application of the following safeguards:

- An engagement quality control review was performed by a qualified Ernst & Young Partner who was not otherwise involved in the audit.
- All adjusting journal entries that Ernst & Young posted to the trial balance have been approved by management of MWSC.
- The preparation of the financial statements is based on MWSC's trial balance with our understanding that MWSC's underlying books and records are maintained by MWSC's accounting department and that the final trial balance prepared by MWSC is complete.
- MWSC's Chief Financial Officer has the skill sets to oversee and review the completeness and accuracy of the financial statements and footnote disclosure.

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

May 9, 2025

This communication is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Ernst + Young

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

May 9, 2025

Appendix

A - Management Representations Letter

A - Management Representations Letter



May 9, 2025

Ernst & Young LLP
Majuro, Marshall Islands
P.O Box 1288, 96960

In connection with your audit of the financial statements of the business-type activities of Majuro Water and Sewer, Inc. (MWSC), a component unit of the Republic of the Marshall Islands, which comprise the statement of net position as of September 30, 2021 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, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position of the business-type activities of MWSC and the changes in financial position and cash flows thereof in conformity with U.S. generally accepted accounting principles (US GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, considering surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

Management's responsibilities

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated March 27, 2023, for the preparation and fair presentation of the financial statements (including disclosures) in accordance with US GAAP applied on a basis consistent with that of the preceding years.

In preparing the financial statements, we evaluated whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MWSC's ability to continue as a going concern for one year after the date that the financial statements are issued, and to provide appropriate financial statement disclosure, when applicable, related to going concern and using the going concern basis of accounting unless we prepared the financial statements in accordance with the liquidation basis of accounting.

A - Management Representations Letter, continued

Management's responsibilities, continued

We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. We have provided you with:

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, data, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within MWSC from whom you determined it necessary to obtain evidence

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

From October 1, 2020 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material effect on the financial statements, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

Governmental entities

We recognize that we are responsible for MWSC's compliance with laws, regulations, and provisions of contracts and grant agreements that are applicable to it. We have identified and disclosed to your representatives, all laws and regulations that have direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

We have identified to your representatives all previous audits, attestation engagements, and other studies related to the audit objectives and whether the related recommendations have been implemented.

There has been no noncompliance or possible noncompliance with provisions of contracts or grant agreements in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

We have informed you of any investigations or legal proceedings that have been initiated or are in process with respect to the period under audit.

We have a process to track the status of audit findings and recommendations.

A – Management Representations Letter, continued

Governmental entities, continued

We have provided views on your reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.

We have taken timely and appropriate steps to remedy fraud, and noncompliance with provisions of laws, regulations, contracts or grant agreements, that you have reported.

Corrected misstatements

We agree with the audit adjustments you have proposed (Appendix A) and have posted the adjusting journal entries to MWSC's books.

Uncorrected misstatements

We believe that the effects of any uncorrected misstatements, summarized in the accompanying schedule (Appendix B), accumulated by you during the current and prior audit period presented are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit. In addition, to the extent that uncorrected misstatements have been subsequently identified in the current period that affect prior period financial statements, we have evaluated the effect of correcting prior period financial statements and believe that the effects of the uncorrected misstatements are immaterial, both individually and in the aggregate, to both the current and prior period financial statements.

Internal control

We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting.

Minutes and contracts and internal audit reports

Minutes of the meetings were not made available. There were no matters of significance were discussed by members of Board of Directors during these meetings that required adjustment to, or disclose in, the financial statements of Sep 30, 2021.

We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

A – Management Representations Letter, continued

Methods, significant assumptions, and data used in making accounting estimates

The appropriateness of the methods, the consistency in application, the accuracy and completeness of data, and the reasonableness of significant assumptions used by us in developing accounting estimates and related disclosures, including those measured at fair value, are reasonable and supportable.

Ownership and pledging of assets

MWSC has satisfactory title to all assets appearing in the statements of net position. No security agreements have been executed under the provisions of any law, and there are no liens or encumbrances on assets, nor has any asset been pledged. All assets to which MWSC has satisfactory title appear in the statements of net position.

Receivables and revenues

Receivables have been determined in accordance with all relevant GASB Statements, including GASB Statements No. 33 and 62 - as amended.

Adequate provision has been made for losses, costs and expenses that may be incurred after the statements of net position date in respect of any accrued contributions receivable rendered prior to that date and for uncollectible accounts and allowances, etc., that may be incurred in the collection of receivables at that date.

Long-lived assets to be held and used, including amortizable intangible assets

No events or changes in circumstances have occurred that indicate the carrying amounts of long-lived assets to be held and used, including intangible assets that are subject to amortization, may not be recoverable.

Related party relationships and transactions

We have made available to you the names of all related parties and all relationships and transactions with related parties.

The substance of transactions with related parties as defined in GASB Statement No. 56 - as amended, has been considered and appropriate adjustments or disclosures are made in the financial statements, and information concerning these transactions and amounts have been made available to you.

Side agreements and other arrangements

There have been no side agreements or other arrangements (either written or oral) that have not been disclosed to you.

A – Management Representations Letter, continued

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

Contingent liabilities

There are no unasserted claims or assessments, including those our lawyers have advised us of, that are probable of assertion and must be disclosed in accordance with GASB Statement No. 62 - as amended other than those disclosed in the financial statements.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency other than those disclosed in the financial statements.

There have been no internal investigations or communications from regulatory agencies or government representatives in any jurisdiction concerning investigations or allegations of noncompliance with laws or regulations, noncompliance with or deficiencies in financial reporting practices, or other matters that could affect the financial statements other than those disclosed or accrued in the financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by GASB Statement No. 62 - as amended, *Contingencies* other than those accrued or disclosed in the financial statements, nor are there any accruals for loss contingencies included in the statement of financial position or gain contingencies reflected in earnings that are not in conformity with the provisions of GASB Statement No. 62 - as amended.

We have consulted legal counsel concerning litigation, claims or assessments.

Oral or written guarantees

There are no oral or written guarantees other than those reported in the financial statements, including guarantees of the debt of others.

Purchase commitments

As of September 30, 2021, MWSC had no purchase commitments for inventories more than normal requirements or at prices that were more than market at that date.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding as of September 30, 2021, as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

A – Management Representations Letter, continued

Non-compliance with laws and regulations, including fraud

We acknowledge that we are responsible to determine that MWSC's business activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws or regulations, including fraud.

We acknowledge our responsibility for the design, implementation and maintenance of a system of internal control to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated because of fraud.

We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in MWSC's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of MWSC.

We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

Independence

We have communicated to you the names of MWSC's affiliates, officers and directors.

We are not aware of any capital lease, material cooperative arrangement or other business relationship between MWSC and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be independent for purposes of MWSC's audit.

Conflicts of interest

There are no instances where any officer or employee of MWSC held an interest in a company with which MWSC does business with that would be considered a "conflict of interest." Such an interest would be contrary to MWSC's policy.

A – Management Representations Letter, continued

Effects of new accounting principles

We have not completed the process of evaluating the effects that will result from adopting the amendments to the codification provided in Governmental Accounting Standards Board (GASB), as discussed in Note 2.

- GASB Statement No. 87
- GASB Statement No. 89
- GASB Statement No. 92
- GASB Statement No. 94
- GASB Statement No. 96
- GASB Statement No. 97

MWSC is therefore unable to disclose the effects that adopting the amendments in the GASB Statements will have on its financial position and the changes in its financial position when such statement is adopted.

Going concern

In preparing the financial statements, we evaluated the entity's ability to continue as a going concern for twelve months after the date that the financial statements are issued (or available to be issued, if applicable), and provide appropriate financial statement disclosure, as necessary under GASB requirements.

Required supplementary information

Management has elected to omit the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Other representations

- We have identified and disclosed to you all provisions of laws and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- We have identified, and disclosed to you, violations (and possible violations) of laws, regulations and provisions of contracts and grant agreements with effects that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

A – Management Representations Letter, continued

Other representations, continued

- We have followed all applicable laws and regulations in adopting, approving and amending budgets, tax or debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments and tax levies and refunds.
- Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
- Expenses have been appropriately classified in or allocated to functions and programs in the statements of activities, and allocations have been made on a reasonable basis.
- Revenues are appropriately classified in the statement of revenues, expenses and change in net position.
- Provisions for uncollectible receivables have been properly identified and recorded.
- Capital assets, including infrastructure, are properly capitalized, reported and, if applicable, depreciated.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available is appropriately disclosed and net position was properly recognized under the policy.
- Subsequent events have been evaluated and classified as recognized or nonrecognized through the date of this letter.

Financial statements approval

We have received a draft copy of the financial statements of MWSC as of and for the year ended September 30, 2021. The accuracy and completeness of the financial statements, including footnote disclosures, are the responsibility of the management of MWSC.

You have assisted in the preparation of MWSC's financial statements based on the information in MWSC's trial balance and accounting records. It is our understanding that:

- MWSC's underlying books and records are maintained by MWSC's accounting department and that the final trial balance prepared by MWSC is complete; and
- Management of MWSC has designated a competent representative to oversee your services and that there are MWSC personnel with sufficient financial competence who are able to challenge and review the completeness and accuracy of the financial statements.

We acknowledge, that we have reviewed the draft financial statements for accuracy and completeness, and we take responsibility for them.

A – Management Representations Letter, continued

Subsequent events

Subsequent to September 30, 2021, no events or transactions have occurred or are pending that would have a material effect on the basic financial statements at that date or for the period then ended, or that are of such significance in relation to MWSC's affairs to require mention in a note to the basic financial statements in order to make them not misleading regarding the financial position, changes in financial position and, where applicable.

We understand that your audit was conducted in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, and was, therefore, designed primarily for the purpose of expressing an opinion on the financial statements of MWSC and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,



CEO, Damian Capelle



CFO,
Moni Elbon

A – Management Representations Letter, continued

Appendices

A – Schedule of Corrected Misstatements

B – Schedule of Uncorrected Misstatements

A – Management Representations Letter, continued

Appendix A – Schedule of Corrected Misstatements

Communication schedule for corrected misstatements										
Entity: <u>Majuro Water Sewer and Company</u>			Period ended: <u>30-Sep-2021</u>			Currency: <u>USD</u>				
No.	W/P ref.	Account	Assets	Assets	Liabilities	Liabilities	Equity	Effect on the	Income statement	
			Current	Non-current	Current	Non-current	components	current period OCI	effect of the current period	Non taxable
		(misstatements are recorded as journal entries with a description)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	
AJE 1		To record the payroll accrual for Sep 2021								
	N.00	Salaries and Wages - RMI citizen	32,815							
	N.00	Salaries and Wages - Overtime RMI citizen	848							
	N.00	Benefits Missa RMI Citizen	3,871							
	N.00	Benefits Other RMI Citizen	559							
	N.00	Benefits Other ASC	628							
	N.00	Payroll Accrual							(30,979)	
	N.00	Missa Employee W/H Payable							(7,742)	
AJE 2		To reverse the impact of wrong posting related to saltwater improvement								
	K.01	Office Building Repairs							92,165	
	K.01	Buildings & Leasehold		(92,165)						
AJE 3		To record the saltwater improvement in correct accounts								
	K.01	Buildings & Leasehold	92,165							
	K.01	Inventory - Swr		(90,450)						
	K.01	Freight & Handling							(1,074)	
	K.01	Insurance							(641)	
AJE 4		To record Prior year audit adjustment related to Dump truck cost								
	K.01	Machinery and equipment	32,295							
	K.01	Machine value Adjustment							(32,295)	
AJE 5		To capitalize the import taxes to the cost of saltwater improvements								
	K.01	BUILDINGS & LEASEHOLDS	7,373							
	K.01	BUS. LICENSES, FEES & TAXES							(7,373)	

A – Management Representations Letter, continued

AJE 6		To Rectify the impact of overbooking of Allowance for DA for FY21									
	E.00	ALLOW. FOR DOUBT.-WTR SYS	(269,710)								
	E.00	ALLOW. FOR DOUBT. WTR DELIV	(14,051)								
	E.00	Bad Debts expense								283,761	
AJE 7		To record the negative receivables as Deferred revenue									
	E.01	ACCTS. RECEIVABLE WTR SYS	57,828								
	E.01	Deferred Revenue			(57,828)						
AJE 8		To reverse the impact of invalid prepayment for vehicle									
	G.00	VEHICLE REPAIRS								12,517	
	G.00	PRE-PAID EXPENSE	(12,517)								
AJE 9	N.00	To record the amount of interest and penalty for June and Sep Qtr with correct amount and account									
		BENEFITS - MISSA - RMI CITIZENS								8,742	
		Accounts payable			7,791						
		MISSA EMPLOYEE W/H PAYABLE			(16,533)						
AJE 10	UE1.00	To reverse the impact of RepMar subsidy									
		Subsidies								76,800	
		ACCTS RECEIVABLE-OTHERS	(76,800)								
Total of corrected misstatements before income tax			(144,696)	(182,615)	(66,570)	0	0	0	0	393,881	

A – Management Representations Letter, continued

Appendix B– Schedule of Uncorrected Misstatement

Communication schedule for uncorrected misstatements										
Entity: Majuro Water Sewer and Company			Period Ended: 30-Sep-2021			Currency: USD				
Uncorrected misstatements			Analysis of misstatements Debit/(Credit)							
No.	W/P ref.	Account (Note 1)	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement effect of the current period	
		(misstatements are recorded as journal entries with a description)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Non taxable
Factual misstatements:										
PAJE 1	C.00	To record the reversal of stale dated checks								
		CASH IN BANK-GENERAL (BOG)	3,471							
		CASH IN BANK-PAYROLL (BOG)	1,536							
		Accounts Payable			(5,007)					
PAJE 2	K.00	To correct the impact of understatement of dep on Water System (Liner's Project - 03/31/14)								
		Depreciation							7,643	
		Acc depreciation	(7,643)							
PAJE 3	N.00	To remove the impact of vendors with negative payable balances								
		Inventory Adjustment							17,262	
		Accounts Payable			(17,262)					
Total of uncorrected misstatements before income tax			(2,636)	0	(22,289)	0	0	0	24,905	

MAJURO WATER & SEWER COMPANY
PO Box 1751
Majuro, Marshall Islands, MH, 96960.
Tel: (692) 625-8838/8934

Management Letter

Majuro Water and Sewer Company, Inc.

(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2021



May 9, 2025

Board of Directors
Majuro Water and Sewer Company, Inc.

In planning and performing our audit of the financial statements of the business-type activities of Majuro Water and Sewer Company, Inc. (MWSC) as of and for the year ended September 30, 2021, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Cash in Bank - Stale-dated Checks

Condition: At September 30, 2021, the bank reconciliation included outstanding checks of \$33,218, which included stale-dated checks amounting to \$5,007.

Recommendation: We recommend management establish internal policies and procedures requiring timely resolution and follow-up of outstanding checks which have been outstanding for over six months.

Cash in Bank - Bank Reconciliations

Condition: At September 30, 2021, the two Bank of Guam Account bank reconciliations did not agree to the general ledger by \$368 and \$572, respectively. As these amounts were not considered material to the financial statements, no audit adjustments were proposed.

Recommendation: We recommend management establish internal policies and procedures requiring timely resolution of bank reconciling items.

Other Receivables

Condition: During our review of other receivable balances, totaling \$27,637, we noted that certain amounts, totaling \$15,170, lacked adequate supporting documentation, such as invoices, contracts, or other evidence to substantiate the validity and recoverability of the balances.

Recommendation: We recommend that management perform a detailed review of other receivable balances and ensure that each item is properly supported by relevant documentation. In cases where documentation cannot be obtained, consideration should be given to writing off the balances if they are deemed uncollectible. Additionally, controls should be strengthened to ensure that all future receivables are recorded with adequate supporting documentation.

Capital Assets

Condition: During our testing of capital assets, we identified one item for which the depreciation expense was understated by \$7,643 due to an error in the calculation. Specifically, the asset was depreciated over a longer useful life than the one stated in MWSC's accounting policy, resulting in a lower depreciation charge for the period. As the misstatement was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend that management review the useful lives and depreciation methods applied to all capital assets to ensure consistency with MWSC's accounting policies. Additionally, implementing a review control over depreciation calculations may help identify and correct such errors on a timely basis.

Withholding Tax Remittances

Condition: During the year ended September 30, 2021, MWSC filed and paid income taxes withheld for payroll period ending February 27, 2021, March 13, 2021, July 31, 2021, August 28, 2021, and September 25, 2021 in a manner inconsistent with the Income Tax Act of 1989. Such were subsequently paid on April 13, 2021, and March 16, 2023, respectively.

Recommendation: We recommend management establish internal control policies and procedures requiring compliance with the Income Tax Act of 1989.

Social Security and Health Fund Remittances

Condition: During the year ended September 30, 2021, MWSC filed and paid Social Security and Health Fund contributions for quarter ended March 31, 2021 in a manner inconsistent with the Social Security Act of 1990. Such were subsequently paid on September 7, 2021.

Recommendation: We recommend management establish internal control policies and procedures requiring compliance with the Social Security and Health Fund Act of 1990.

Board Sitting Fees

Condition: During the year ended September 30, 2021, MWSC paid sitting fees of \$7,600 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus may be subject to withholding taxes. No withholding taxes were withheld by MWSC.

Recommendation: We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

Retirement Savings Plan

Condition: During the year ended September 30, 2021, MWSC made employer contributions, totaling \$2,460, to employee retirement savings plan. Taxes are not currently withheld and paid on the employer contributions.

Recommendation: We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on employer contributions to employee retirement savings plan.

Board Meeting Minutes

Condition: During our review of corporate governance documentation, we noted that formal minutes were not available to support certain meetings of the Board of Directors. In some instances, it was unclear whether meetings had occurred or whether key decisions were formally documented and approved.

Recommendation: We recommend that management ensure minutes are prepared, reviewed, and formally approved for all Board of Directors meetings. These minutes should accurately reflect discussions held, decisions made, and actions agreed upon. Proper maintenance and timely approval of these records will enhance governance practices and support regulatory compliance.

This communication is intended solely for the information and use of management, the Board of Directors, others within the organization, and the Office of the Auditor-General, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

At this time, we would like to thank all the staff and management of MWSC for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young