

*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)

*Years ended September 30, 2022 and 2021  
with Report of Independent Auditors*



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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

Years ended September 30, 2022 and 2021

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## Report of Independent Auditors

Board of Directors  
Majuro Water and Sewer Company, Inc.

### **Report on the Audit of the Financial Statements**

#### ***Qualified Opinion***

We have audited the 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 years ended September 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise MWSC's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of MWSC as of September 30, 2022 and 2021, and the changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Qualified Opinion***

We did not observe the taking of the physical inventories at September 30, 2022 and 2021 (stated at \$861,784 and \$848,919, respectively) since those dates were 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.

Due to inadequacies in MWSC's accounting records, we are unable to express an opinion on the amount of utility billing revenue for the year ended September 30, 2021, totaling \$984,234, which is included in the accompanying statement of revenues, expenses, and changes in net position.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MWSC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate 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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 MWSC's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MWSC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

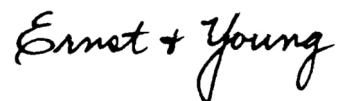
### ***Other Matters***

#### *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 November 20, 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.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

November 20, 2025

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

Statements of Net Position

	September 30,	
	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 374,897	\$ 279,998
Accounts receivable, net	206,351	216,578
Due from RepMar	74,400	223,200
Inventories	861,784	848,919
Prepaid expenses	<u>27,215</u>	<u>44,896</u>
Total current assets	1,544,647	1,613,591
Noncurrent assets:		
Capital assets, net of accumulated depreciation	<u>1,015,230</u>	<u>1,224,819</u>
Total assets	<u>\$ 2,559,877</u>	<u>\$ 2,838,410</u>
<b>Liabilities and Net Position</b>		
Current liabilities:		
Payable to affiliates	\$ 3,953,127	\$ 3,531,141
Accounts payable	191,162	165,206
Social security payable	186,678	84,096
Unearned revenue	76,018	57,828
Other accrued liabilities	<u>69,771</u>	<u>68,186</u>
Total current liabilities	<u>4,476,756</u>	<u>3,906,457</u>
Commitment and contingencies		
Net position:		
Net investment in capital assets	1,015,230	1,224,819
Restricted	37,512	52,654
Unrestricted	<u>( 2,969,621 )</u>	<u>( 2,345,520 )</u>
Total net position	<u>( 1,916,879 )</u>	<u>( 1,068,047 )</u>
Total liabilities and net position	<u>\$ 2,559,877</u>	<u>\$ 2,838,410</u>

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30,	
	2022	2021
Operating revenues:		
Utility billings	\$ 921,400	\$ 984,234
Hook-up and deliveries	232,612	184,146
Other	11,958	5,108
Total operating revenues	1,165,970	1,173,488
Less uncollectable accounts	( 429,517 )	( 98,956 )
Total net operating revenues	736,453	1,074,532
Operating expenses:		
Salaries, wages and benefits	763,583	700,639
Depreciation	369,471	305,389
Electricity	350,552	327,761
Petroleum, oil and lubricants	91,207	48,374
Spare parts	71,449	63,810
Contractual services	65,898	46,223
Communications	30,478	26,867
Entertainment	26,654	19,350
Office supplies	21,168	20,635
Insurance	17,814	34,715
License fees and taxes	9,977	8,974
Repairs and maintenance	9,214	34,153
Uniforms	6,033	5,943
Travel	3,797	3,998
Freight and handling	1,019	7,706
Chlorine	---	19,313
Miscellaneous	44,571	41,583
Total operating expenses	1,882,885	1,715,433
Operating loss	( 1,146,432 )	( 640,901 )
Nonoperating revenues:		
Operating subsidies from RepMar	297,600	223,200
Change in net position	( 848,832 )	( 417,701 )
Net position at beginning of year	( 1,068,047 )	( 650,346 )
Net position at end of year	\$( 1,916,879 )	\$( 1,068,047 )

See accompanying notes.

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

Statements of Cash Flows

	Year ended September 30,	
	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from customers	\$ 764,870	\$ 1,076,280
Cash payments to suppliers for goods and services	( 360,159 )	( 432,846 )
Cash payments to employees for services	( 596,330 )	( 641,297 )
Net cash (used in) provided by operating activities	( <u>191,619</u> )	<u>2,137</u>
Cash flows from noncapital financing activity:		
Operating subsidies received from RepMar	<u>446,400</u>	<u>---</u>
Cash flows from capital and related financing activity:		
Acquisition and construction of capital assets	( <u>159,882</u> )	( <u>42,610</u> )
Net change in cash	94,899	( 40,473 )
Cash at beginning of year	<u>279,998</u>	<u>320,471</u>
Cash at end of year	\$ <u>374,897</u>	\$ <u>279,998</u>
Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	\$( 1,146,432 )	\$( 640,901 )
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	369,471	305,389
Provision for doubtful accounts	429,517	98,956
Change in assets and liabilities:		
Receivables:		
Utility	( 298,292 )	( 295,091 )
Affiliates	( 138,113 )	225,996
Other	17,115	994
Inventories	( 12,865 )	( 82,762 )
Prepaid expenses	17,681	3,337
Payable to affiliates	524,568	364,371
Accounts payable	25,956	25,257
Unearned revenue	18,190	( 29,107 )
Other accrued liabilities	<u>1,585</u>	<u>25,698</u>
Net cash (used in) provided by operating activities	\$( <u>191,619</u> )	\$ <u>2,137</u>

See accompanying notes.

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

Notes to Financial Statements

Years ended September 30, 2022 and 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.

MWSC is governed by a seven-member RMI Combined Utilities Board of Directors appointed by the Cabinet of RepMar. The RMI Combined Utilities Board of Directors also have governance over the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) and the Marshalls Energy Company, Inc. (MEC), which are component units of RepMar.

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

## 2. Summary of Significant Accounting Policies

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

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34*, establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

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

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

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

- Net investment in capital assets - capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.
- Restricted: Nonexpendable net position subject to externally imposed stipulations that require MWSC to maintain such permanently. As of September 30, 2022, and 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, 2022 and 2021, MWSC has restricted expendable net position as follows:

	<u>2022</u>	<u>2021</u>
U.S. Government:		
U.S. Department of the Interior:		
Geospatial Asset Location and Cataloging Project	\$37,512	\$37,512
Water Main Repair and Restoration Program	<u>---</u>	<u>15,142</u>
	<u>\$37,512</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.

**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.

**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.

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**

**Cash, continued**

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2022, and 2021, the carrying amounts of MWSC's total cash was \$374,897 and \$279,998, respectively, and the corresponding bank balances were \$432,362 and \$312,593, respectively. Of the bank balances, \$422,211 and \$308,767, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amount of \$10,151 and \$3,826, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2022, and 2021, bank deposits in the amounts of \$250,000 were FDIC insured. MWSC does not require collateralization of its cash deposits; therefore, deposit levels more than FDIC coverage are uncollateralized. Accordingly, these deposits were exposed to custodial credit risk. MWSC has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

**Receivables**

All receivables are due from government agencies, businesses and individuals located on Majuro Atoll and are interest free and uncollateralized. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Management determines the adequacy of the allowance for uncollectible accounts based upon review of the aged accounts receivable. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on the specific identification method.

**Inventory**

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

**Prepaid Expenses**

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

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**

**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:

	<u>Estimated Useful Lives</u>
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 statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MWSC has no items that qualify for reporting in this category.

**Deferred Inflows of Resources**

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. MWSC has no items that qualify for reporting in this category.

**Unearned Revenue**

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

**Taxes**

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, sales of water and sewer services by public utility companies are exempt from gross revenue tax. Accordingly, MWSC is specifically exempt from this tax.

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

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Revenue Recognition**

MWSC's revenues are derived primarily from the operation of the fresh water and wastewater system. Capital grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on an 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.

**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.

**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, 2022, MWSC implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which 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. The implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The implementation of this Statement did not have a material effect on the accompanying financial statements.

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. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB 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*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances 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. The implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:
  - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

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**

- 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

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**

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 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.

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.

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 April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for the fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for the fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for the fiscal year ending September 30, 2023.
- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for the fiscal year ending September 30, 2023.
- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is 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 June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for the fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for the fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to ascertain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 102 will be effective for the fiscal year ending September 30, 2025.

Majuro Water and Sewer Company, Inc.  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability and addressing certain application issues identified through pre-agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements or modifies existing requirements related to management's discussion and analysis (MD&A), unusual or infrequent items, presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, information about major component units in basic financial statements, budgetary comparison information and financial trends information in the statistical section. GASB Statement No. 103 will be effective for the fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital as-sets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for the fiscal year ending September 30, 2026.

**Majuro Water and Sewer Company, Inc.**  
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Notes to Financial Statements, continued

**3. Accounts Receivable**

Accounts receivable as of September 30, 2022 and 2021, net of allowance for uncollectible accounts, consist of the following:

	<u>2022</u>	<u>2021</u>
Utility	\$2,863,481	\$2,565,189
Affiliates	221,229	83,117
Other	<u>10,522</u>	<u>27,636</u>
	3,095,232	2,675,942
Less allowance for uncollectible accounts	<u>(2,888,881)</u>	<u>(2,459,364)</u>
	<u>\$ 206,351</u>	<u>\$ 216,578</u>

**4. Inventories**

Spare parts inventory as of September 30, 2022 and 2021, consists of the following:

	<u>2022</u>	<u>2021</u>
Water	\$446,389	\$438,789
Sewer	410,920	406,800
Other	<u>4,475</u>	<u>3,330</u>
	<u>\$861,784</u>	<u>\$848,919</u>

**5. Capital Assets**

Capital asset activities for the years ended September 30, 2022 and 2021, were as follows:

	<u>2022</u>			
	<u>October 1, 2021</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2022</u>
Depreciable capital assets:				
Machinery and equipment	\$2,105,431	\$ 73,363	\$(20,046)	\$2,158,748
Building leasehold improvements	1,052,039	---	---	1,052,039
Vehicles	297,681	78,585	(15,995)	360,271
Office equipment	<u>273,161</u>	<u>7,934</u>	<u>(30,314)</u>	<u>250,781</u>
	3,728,312	159,882	(66,355)	3,821,839
Less accumulated depreciation	<u>(2,503,493)</u>	<u>(369,471)</u>	<u>66,355</u>	<u>(2,806,609)</u>
	<u>\$1,224,819</u>	<u>\$(209,589)</u>	<u>\$ ---</u>	<u>\$1,015,230</u>

Majuro Water and Sewer Company, Inc.  
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Notes to Financial Statements, continued

**5. Capital Assets, continued**

	2021			
	October 1, 2020	Additions	Transfers and Disposals	September 30, 2021
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>

**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. During the years ended September 30, 2022 and 2021, MWSC contributed \$6,358 and \$2,460, respectively, to the Plan participant accounts. As of September 30, 2022 and 2021, total combined Plan assets were \$37,502 and \$176,675, respectively.

**7. Related Party Transactions**

MWSC is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshalls Energy Company, Inc. (MEC). 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. In addition, MWSC utilizes services from MEC at substantially more favorable terms and conditions than those provided to third parties.

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

Notes to Financial Statements, continued

**7. Related Party Transactions, continued**

A summary of related party transactions for the years ended September 30, 2022 and 2021, and related receivable and payable balances as of September 30, 2022 and 2021, are as follows:

	2022			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$308,262	\$ 2,033	\$102,973	\$ 98,766
Marshall's Energy Company, Inc.	4,660	353,666	36,590	3,840,729
Marshall Islands National Telecommunications Authority	932	27,965	2,447	5,048
Marshall Islands Social Security Administration	512	73,493	596	186,678
Majuro Resort, Inc.	66,334	14,385	11,936	5,834
Others	<u>59,463</u>	<u>161</u>	<u>66,687</u>	<u>2,750</u>
	<u>\$440,163</u>	<u>\$471,703</u>	<u>\$221,229</u>	<u>\$4,139,805</u>
	2021			
	<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 years ended September 30, 2022 and 2021, MWSC received cash operating subsidies from RepMar in the amount of \$297,600 and \$223,200, respectively. As of September 30, 2022 and 2021, operating subsidies due and receivable from RepMar were \$74,400 and \$223,200, respectively.

On June 7, 2022, MWSC executed a promissory note with the Marshall Islands Social Security Administration (MISSA) for delinquent contributions in the aggregate amount of \$141,264 representing the quarters ended June 30, 2021 through March 31, 2022. Repayment of principal and interest commences June 28, 2022 in monthly instalments of \$5,000 with interest at 12% per annum. As of September 30, 2022, MWSC is in noncompliance with payment terms and conditions of the promissory note. Accordingly, total amounts due and payable under this promissory note of \$141,058 together with contributions for the quarter ended September 30, 2022 of \$45,620 are classified as a current liability within the statement of net position.

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, 2022, 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 because of these risks have occurred in any of the past three years.

**9. Contingencies**

**Going Concern**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of MWSC as a going concern. During the years ended September 30, 2022 and 2021, MWSC incurred losses from operations of \$1,146,432 and \$640,901, respectively. Management acknowledges that it is currently dependent on RepMar for cash funding to maintain MWSC as a going concern. Although RepMar has provided funding in the past, MWSC does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of MWSC's operations is dependent upon the financial support of RepMar, deferment in payment of certain liabilities to Marshalls Energy Company, Inc. (MEC) for electricity usage, and/or significant improvements in operations through the collection of long outstanding utility receivables.

In view of these matters, realization of a major portion of the assets in the accompanying statements of net position at September 30, 2022 and 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. If cash subsidies from RepMar are reduced or eliminated and/or demand for payment from MEC for electricity usage occurs, the Board and management of MWSC will take appropriate action to initiate changes in tariff rates for MWSC services.

**Litigation**

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

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

**Notes to Financial Statements, continued**

**10. Subsequent Events**

*Water Reservoir at Majuro Atoll*

On March 29, 2024, RepMar and MWSC jointly entered into a contract with a contractor associated with a JPY2,167,000,000 grant agreement between RepMar and the Japan International Cooperation Agency (JICA) for the Improvement of Water Reservoir at Majuro Atoll Project, the objective of which is to increase water storage capacity through the construction of a new rainwater reservoir.

*Government Assistance Related to Drought Impact*

On April 9, 2024, the RepMar Cabinet authorized and approved a payment of \$430,300 through Cabinet Minute CM 096 (2024) for the purpose of settling delinquent residential customer debts owed to MWSC. No payment has been made to MWSC with respect to CM 096 (2024).

*Urban Services Improvement Project*

On September 19, 2024, MWSC entered into a project agreement with the Asian Development Bank (ADB) associated with a \$52,500,000 grant agreement (Grant Number 0960-RMI) between RepMar and the ADB for the Integrated Urban Services and Resilience Project, the objective of which is to improve water supply security, diversify water sources, and introduce innovative desalination solutions to mitigate the impact of anticipated future droughts.

## 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, 2022, 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 November 20, 2025, which report was qualified due to the lack of inventory observation.

### **Report on 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

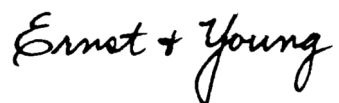
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2022-001 and 2022-002 that we consider to be material weaknesses

## **Report on 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*.

### **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, cursive script font.

November 20, 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, 2022

Finding No. 2022-001  
Area: Local Noncompliance

Criteria: Section 131 of the Social Security Act of 1990 and Section 218 of the Marshall Islands Health Fund Act of 2002 states that no later than the tenth (10th) day after the end of each quarter, every employer, including every self-employed worker, shall (a) submit a report of the wages and salaries paid by him and the respective social security and health fund contributions due from him; and (b) pay into the social security fund and the health fund the respective contributions due.

Condition: MWSC filed and paid employer and employee contributions for social security and health fund in a manner inconsistent with the criteria. Specifically, MWSC filed and paid social security and health fund contributions after the due date for the quarters ended June 30, 2021, September 30, 2021, December 31, 2021 and March 31, 2022. On June 7, 2022, MWSC executed a promissory note with the Marshall Islands Social Security Administration for delinquent contributions in the amount of \$141,264, with repayment commencing on June 28, 2022 in monthly payments of \$5,000. As of September 30, 2022, MWSC is noncompliant with the promissory note repayment terms and conditions.

Cause: The lack of policies and procedures to implement and monitor timely filing of returns and payment of contributions in accordance with the Social Security Act and the Marshall Islands Health Fund Act.

Effect: Noncompliance with the Social Security Act of 1990 and the Marshall Islands Health Fund Act of 2002.

Recommendation: We recommend that management establish policies and procedures to comply with the Social Security Act of 1990 and the Marshall Islands Health Fund Act of 2002.

Auditee Response and Correction Action: Management acknowledges the audit finding and appreciates the observations regarding the timing of Social Security and Health Fund filings and payments for the noted periods. MWSC recognizes that the delays were influenced by a combination of factors, including the absence of fully documented internal procedures to guide the process, as well as periods during which the organization faced financial constraints that affected the timely remittance of contributions. Management also notes the importance of improving adherence to the repayment terms of the promissory note executed with the Marshall Islands Social Security Administration.

Majuro Water and Sewer Company, Inc.  
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Schedule of Findings and Responses, continued

Finding No. 2022-001, continued  
Area: Local Noncompliance

Auditee Response and Corrective Action Plan ,continued: In response, MWSC is currently updating its financial management policy, HR policies and procedures relating to statutory payroll obligations. The revised policies will clarify responsibilities, internal timelines, escalation protocols, and supervisory review requirements. As part of this update, MWSC will take an initiative on improving its internal control environment, including establishing earlier internal cutoff dates, to improve oversight mechanisms, review and approval processes.

Dedicated finance personnel will be assigned to monitor statutory reporting and payment schedules, supported by management oversight to ensure that filings and remittances are completed in advance of statutory deadlines. MWSC will also incorporate Social Security and Health Fund obligations together with commitments under the promissory note into its financial and cash flow planning processes to better ensure that funds are available when required. Management will continue engaging with MISSA to review and, if necessary, discuss updates to the existing repayment arrangement.

MWSC will make sure that both finance, HR staff and management receive appropriate guidance and training on the updated procedures and on the statutory requirements under the Social Security Act of 1990 and the Health Fund Act of 2002 to help reinforce a better understanding of compliance expectations and support consistent implementation of the improved internal controls.

To further support ongoing compliance, MWSC will implement a quarterly compliance tracking mechanism to give management timely visibility of upcoming deadlines and outstanding obligations. This will serve as an additional internal control to promote timely filing and payment of statutory contributions. The MWSC management remains committed to strengthening internal controls to enhance financial management practices and ensuring full compliance with statutory reporting and remittance requirements moving forward.

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

Schedule of Findings and Responses, continued

Finding No.: 2022-002  
Area: Board of Directors Meetings

Criteria: Good governance practices and standard internal control procedures require that minutes be prepared, approved, and retained for all Board meetings to provide an official record of actions taken.

Condition: MWSC did not maintain documented minutes for Board meetings held between the period October 1, 2021 through May 20, 2024. As a result, key decisions and discussions were not formally recorded.

Cause: Management indicated that minutes were not consistently prepared or retained due to oversight.

Effect: The absence of documented minutes severely limits transparency, weakens governance oversight, reduces MWSC's ability to demonstrate that decisions were properly authorized, and that financial related matters are disclosed, where applicable, in the financial statements.

Recommendation: We recommend that MWSC ensure minutes are prepared for every Board meeting, approved by the Board, and retained in an organized and accessible manner. Additionally, management should review and address the root cause of this prolonged lapse to prevent recurrence.

Auditee Response and Corrective Action Plan: Management acknowledges the observation regarding the missing Board minutes for meetings conducted between October 1, 2021, and May 20, 2024. MWSC agrees that improvements are needed to strengthen governance documentation and ensure that Board proceedings are properly recorded and retained.

As corrective action, MWSC has already established a Financial Record Management Policy in late 2024, which includes strengthened procedures for documenting, approving, and retaining governance-related records such as Board minutes. This policy forms part of MWSC's broader effort to improve its internal control environment and enhance the consistency and reliability of organizational recordkeeping.

Under this policy, MWSC is formalizing the process for documenting Board meetings, including the preparation of minutes, timely review and approval, and secure retention in both electronic and physical formats. The policy also introduces a standardized minutes template and incorporates an internal control step to confirm that all meeting records are complete, properly maintained, and readily accessible when needed.

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

Schedule of Findings and Responses, continued

Finding No.: 2022-002, continued  
Area: Board of Directors Meetings

Auditee Response and Corrective Action Plan ,continued: This corrective action is intended to address the documentation gaps noted in the audit and to ensure that MWSC's governance practices are aligned with good governance standards and internal control expectations. The procedures outlined in the Financial Record Policy will guide staff responsible for administering Board matters and support sustained compliance moving forward.

MWSC remains committed to strengthening its governance processes, enhancing documentation practices, and ensuring that decisions and deliberations of the Board are accurately and consistently recorded.