

*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, 2023 and 2022
with Report of Independent Auditors*



**Shape the future
with confidence**

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, 2023 and 2022

Contents

Report of Independent Auditors.....	1
Audited Basic Financial Statements	
Statements of Net Position.....	4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements 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>	22
Schedule of Findings and Responses	24

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, 2023 and 2022, 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 matters 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, 2023 and 2022, 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 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.

Matters Giving Rise to Qualified Opinion

We did not observe the taking of the physical inventories at September 30, 2023 and 2022 (stated at \$892,037 and \$861,784, 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.

MWSC has not implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, as of the end of the reporting period. As a result, assets, liabilities, and lease-related disclosures related to lease arrangements have not been recorded or presented in accordance with generally accepted accounting principles. The amount by which this departure would affect the assets, liabilities, net position, and related revenues and expenses of the financial statements has not been determined.

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.

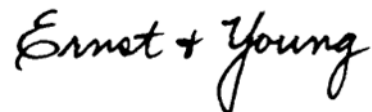
Other Matters

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 June 23, 2026, 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, handwritten-style script.

June 23, 2026

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

Statements of Net Position

	September 30,	
	2023	2022
Assets		
Current assets:		
Cash	\$ 356,645	\$ 374,897
Accounts receivable, net	184,497	206,351
Due from RepMar	223,200	74,400
Inventories	892,037	861,784
Prepaid expenses	28,357	27,215
Total current assets	1,684,736	1,544,647
Noncurrent assets:		
Deposit on acquisition of capital assets	53,390	---
Capital assets, net of accumulated depreciation	906,812	1,015,230
Total assets	<u>\$ 2,644,938</u>	<u>\$ 2,559,877</u>
Liabilities and Net Position		
Current liabilities:		
Payable to affiliates	\$ 4,393,127	\$ 3,953,127
Accounts payable	290,785	191,162
Social security taxes payable	232,390	186,678
Unearned revenue	71,495	76,018
Accrued payroll	53,336	47,051
Other accrued liabilities	14,923	22,720
Total current liabilities	5,056,056	4,476,756
Commitment and contingencies		
Net position:		
Net investment in capital assets	960,202	1,015,230
Restricted	91,609	37,512
Unrestricted	(3,462,929)	(2,969,621)
Total net position	(2,411,118)	(1,916,879)
Total liabilities and net position	<u>\$ 2,644,938</u>	<u>\$ 2,559,877</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,	
	2023	2022
Operating revenues:		
Utility billings	\$ 1,063,238	\$ 921,400
Hook-up and deliveries	335,620	232,612
Other	22,996	11,958
Total operating revenues	1,421,854	1,165,970
Less provision for doubtful accounts	(55,529)	(429,517)
Total net operating revenues	1,366,325	736,453
Operating expenses:		
Salaries, wages and benefits	892,387	763,583
Electricity	507,490	350,552
Depreciation	233,296	369,471
Spare parts	153,838	71,449
Repairs and maintenance	97,528	9,214
Petroleum, oil and lubricants	84,383	91,207
Contractual services	82,110	65,898
Office supplies	62,464	21,168
Communications	32,012	30,478
Insurance	28,566	17,814
Freight and handling	20,775	1,019
Entertainment	12,914	26,654
Travel	10,087	3,797
License fees and taxes	9,919	9,977
Chlorine	4,523	---
Miscellaneous	56,356	50,604
Total operating expenses	2,288,648	1,882,885
Operating loss	(922,323)	(1,146,432)
Nonoperating revenues:		
Operating subsidies from RepMar	321,305	297,600
Loss before capital contributions	(601,018)	(848,832)
Capital contributions:		
U.S. Department of the Interior	106,779	---
Change in net position	(494,239)	(848,832)
Net position at beginning of year	(1,916,879)	(1,068,047)
Net position at end of year	\$(2,411,118)	\$(1,916,879)

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,	
	2023	2022
Cash flows from operating activities:		
Cash received from customers	\$ 1,383,656	\$ 764,870
Cash payments to suppliers for goods and services	(746,963)	(360,159)
Cash payments to employees for services	(755,961)	(596,330)
Net cash used in operating activities	(119,268)	(191,619)
Cash flows from noncapital financing activities:		
Operating subsidies received from RepMar	172,505	446,400
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(178,268)	(159,882)
Capital contributions received	106,779	---
Net cash used in capital and related financing activities	(71,489)	(159,882)
Net change in cash	(18,252)	94,899
Cash at beginning of year	374,897	279,998
Cash at end of year	\$ 356,645	\$ 374,897
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$(922,323)	\$(1,146,432)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	233,296	369,471
Provision for doubtful accounts	55,529	429,517
Change in assets and liabilities:		
Receivables:		
Utility	(114,332)	(298,292)
Affiliates	82,174	(138,113)
Other	(1,517)	17,115
Inventories	(30,253)	(12,865)
Prepaid expenses	(1,142)	17,681
Payable to affiliates	440,000	421,986
Accounts payable	99,623	25,956
Social security payable	45,712	102,581
Unearned revenue	(4,523)	18,190
Accrued payroll	6,285	16,072
Other accrued liabilities	(7,797)	(14,486)
Net cash used in operating activities	\$(119,268)	\$(191,619)

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, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, MWSC has restricted expendable net position as follows:

	<u>2023</u>	<u>2022</u>
U.S. Government:		
U.S. Department of the Interior:		
Geospatial Asset Location and Cataloging Project	\$38,220	\$37,512
Water Main Repair and Restoration Program	<u>53,389</u>	<u>---</u>
	<u>\$91,609</u>	<u>\$37,512</u>

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

When both restricted and unrestricted resources are available for use for the same purpose, it is MWSC's policy to use unrestricted resources first, then restricted resources as they are needed.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Cash

Custodial credit risk is the risk that in the event of a bank failure, MWSC's deposits may not be returned to it. Such deposits are not covered by depositor insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MWSC does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2023 and 2022, the carrying amount of MWSC's total cash was \$356,645 and \$374,897, respectively, and the corresponding bank balances were \$365,499 and \$432,362, respectively. Of the bank balances, \$340,502 and \$422,211, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amount of \$24,997 and \$10,151, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2023 and 2022, bank deposits in the amount 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).

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

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:

	<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.

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

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.

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

During the year ended September 30, 2023, MWSC implemented the following pronouncements:

- GASB Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The 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. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves financial reporting by addressing issues related to public-private and public-public partnership arrangements and provides guidance for accounting and financial reporting for availability payment arrangements. The implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The implementation of this Statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 99, *Omnibus 2022*, which enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. This Statement provides clarification of provisions in:
 - 1) GASB Statement No. 87, *Leases*, 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.
 - 2) 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.
 - 3) GASB Statement No. 96 related to the SBITA term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

This Statement modifies accounting and reporting guidance in:

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, related to termination of hedge.

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

Upcoming Accounting Pronouncements

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. 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.

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. 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. GASB Statement No. 101 will be effective for the fiscal year ending September 30, 2025.

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 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. GASB Statement No. 102 will be effective for the fiscal year ending September 30, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements - or modifies existing requirements - related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary comparison information; and f) 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 assets 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.

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

GASB Statement No. 104 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.

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. GASB Statement No. 105 will be effective for the fiscal year ending September 30, 2027.

Management is evaluating the effect that these Statements, upon implementation, will have on the financial statements.

3. Accounts Receivable

Accounts receivable as of September 30, 2023 and 2022, net of allowance for uncollectible accounts, consist of the following:

	<u>2023</u>	<u>2022</u>
Utility	\$2,977,813	\$2,863,481
Affiliates	139,055	221,229
Other	<u>12,039</u>	<u>10,522</u>
	3,128,907	3,095,232
Less allowance for uncollectible accounts	<u>(2,944,410)</u>	<u>(2,888,881)</u>
	<u>\$ 184,497</u>	<u>\$ 206,351</u>

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

Notes to Financial Statements, continued

4. Inventories

Spare parts inventory as of September 30, 2023 and 2022, consists of the following:

	<u>2023</u>	<u>2022</u>
Water	\$487,142	\$446,389
Sewer	400,535	410,920
Other	<u>4,360</u>	<u>4,475</u>
	<u>\$892,037</u>	<u>\$861,784</u>

5. Capital Assets

Capital asset activities for the years ended September 30, 2023 and 2022, were as follows:

	<u>2023</u>			
	<u>October 1, 2022</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2023</u>
Depreciable capital assets:				
Machinery and equipment	\$2,158,748	\$ 82,625	\$ ---	\$2,241,373
Building leasehold improvements	1,052,039	---	---	1,052,039
Vehicles	360,271	8,000	---	368,271
Office equipment	<u>250,781</u>	<u>34,253</u>	<u>---</u>	<u>285,034</u>
	3,821,839	124,878	---	3,946,717
Less accumulated depreciation	<u>(2,806,609)</u>	<u>(233,296)</u>	<u>---</u>	<u>(3,039,905)</u>
	<u>\$1,015,230</u>	<u>\$(108,418)</u>	<u>\$ ---</u>	<u>\$ 906,812</u>
	<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.
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

5. Capital Assets, continued

During the year ended September 30, 2023, MWSC was the recipient of a grant from the U.S. Department of the Interior for the Water Main Repair and Restoration Program in the amount of \$106,779. MWSC has recorded a deposit on acquisition of capital assets as of September 30, 2023 in the amount of \$53,390 with the remaining unexpended amount of \$53,389 associated with this grant award restricted within net position.

6. Employee Retirement Plan

MWSC has implemented a 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, 2023 and 2022, MWSC contributed \$3,554 and \$6,358, respectively, to the Plan participant accounts. As of September 30, 2023 and 2022, total combined Plan assets were \$45,419 and \$37,502, respectively.

7. Social Security Taxes Payable

At September 30, 2023 and 2022, MWSC was liable for taxes, including certain delinquent taxes, payable to the Marshall Islands Social Security Administration (MISSA) in the amount of \$232,390 and \$186,678, respectively. On June 7, 2022, MWSC and MISSA entered into a promissory note agreement in the amount of \$141,264 for delinquent social security taxes associated with the quarters ended June 30, 2021 through March 31, 2022. The terms of this agreement include monthly payments of \$5,000, inclusive of interest at 12% per annum, commencing June 28, 2022. In addition, MWSC committed to remaining current with future quarterly obligations. For the years ended September 30, 2023 and 2022, MWSC was not in compliance with the terms of this agreement.

8. 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

8. Related Party Transactions, continued

A summary of related party transactions for the years ended September 30, 2023 and 2022, and related receivable and payable balances as of September 30, 2023 and 2022, are as follows:

	<u>2023</u>			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$117,274	\$ 10,477	\$ 26,616	\$ 149,818
Marshall's Energy Company, Inc.	9,105	511,642	43,461	4,232,978
Marshall Islands National Telecommunications Authority	1,195	30,325	2,994	1,230
Marshall Islands Social Security Administration	934	80,088	---	---
Majuro Resort, Inc.	72,158	8,668	10,160	5,834
Others	<u>59,569</u>	<u>987</u>	<u>55,824</u>	<u>3,267</u>
	<u>\$260,235</u>	<u>\$642,187</u>	<u>\$139,055</u>	<u>\$4,393,127</u>
	<u>2022</u>			
	<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	---
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>\$3,953,127</u>

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

During the years ended September 30, 2023 and 2022, MWSC received cash operating subsidies from RepMar in the amount of \$321,305 and \$297,600, respectively. As of September 30, 2023 and 2022, operating subsidies due and receivable from RepMar were \$223,200 and \$74,400, respectively.

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

Notes to Financial Statements, continued

9. 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, 2023, 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.

10. Commitments

In 2023, MWSC executed lease agreements for seven parcels of land located in Laura. The leases commenced on January 1, 2023 for a period of thirty years each, ending on January 1, 2053. The terms of the leases call for rent to be paid in annual installments in advance, in the aggregate amount of \$31,500. Future minimum lease payments under these leases are as follows:

Year ending <u>September 30,</u>	
2024	\$ 31,500
2025	31,500
2026	31,500
2027	31,500
2028	31,500
2029 - 2033	157,500
2034 - 2038	157,500
2039 - 2043	157,500
2044 - 2048	157,500
2049 - 2053	<u>133,875</u>
	<u>\$921,375</u>

11. 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, 2023 and 2022, MWSC incurred losses from operations of \$922,323 and \$1,146,432, respectively. In addition, MWSC has used a substantial amount of working capital in its operations resulting in a working capital deficiency at September 30, 2023 and 2022 of \$3,371,320 and \$2,932,109, respectively. Management acknowledges that it is currently dependent on RepMar for cash funding to maintain MWSC as a going concern.

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

Notes to Financial Statements, continued

11. Contingencies, continued

Going Concern, continued

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, 2023 and 2022, 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.

12. 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).

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

Notes to Financial Statements, continued

12. Subsequent Events, continued

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.

Social Security Taxes Payable

On February 15, 2024, MWSC and MISSA entered into a promissory note agreement in the amount of \$249,154 for delinquent social security taxes associated with the quarters ended December 31, 2021 through December 31, 2023. The terms of this agreement include monthly payments of \$10,000, inclusive of interest at 12% per annum, commencing March 28, 2024. In addition, MWSC committed to remaining current with future quarterly obligations.

RMI Withholding Taxes Payable

On February 18, 2026, MWSC and RepMar entered into a promissory note agreement in the amount of \$304,480 for delinquent withholding taxes associated with the period October 31, 2021 through December 31, 2024. The terms of this agreement include a downpayment of \$152,240 upon signing of this agreement together with monthly payments of \$26,898, inclusive of interest at 12% per annum, commencing February 27, 2026. In addition, MWSC committed to remaining current with future monthly obligations.

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, 2023, 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 June 23, 2026. Our report included a qualified opinion due to the lack of inventory observation and the lack of implementation of the accounting standard related to lease accounting.

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 2023-001 through 2023-003 that we consider to be material weaknesses.

Report on Compliance and Other Matters

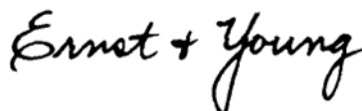
As part of obtaining reasonable assurance about whether MWSC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Responses as items 2023-004 and 2023-005.

MWSC's Response to Findings

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

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.

June 23, 2026

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, 2023

Finding No: 2023-001
Area: Capital Assets

Criteria: Management is responsible for establishing and maintaining internal controls to ensure capital assets are recorded in accordance with generally accepted accounting principles. Under the accrual basis of accounting, capital assets should be recognized when ownership and control of the asset have transferred to MWSC, and the asset has been placed in service or is otherwise available for its intended use. Payments made in advance of receiving an asset should be recorded as prepaid assets, deposits, or construction-in-progress, as appropriate.

Condition: During our audit, we noted that MWSC recorded a capital asset addition of \$106,779 based on a 50% deposit paid to a vendor prior to receiving the asset. The asset had not been delivered, placed into service, or otherwise made available for MWSC's use as of year-end. An audit adjustment was proposed to correct this misstatement.

Cause: The condition occurred because management did not have adequate procedures in place to verify the receipt and availability of capital assets before recording them as capital asset additions in the accounting records.

Effect: As a result, capital assets and accounts payable were overstated, while prepaid assets, deposits, or other appropriate asset classifications were understated. Additionally, financial reporting did not accurately reflect MWSC's rights and obligations as of the reporting date.

Recommendation: We recommend that management implement procedures to ensure capital asset additions are recorded only after the asset has been received and ownership or control has transferred to MWSC. Advance payments should be recorded as deposits, prepaid assets, or construction-in-progress, as appropriate, until the asset is received and eligible for capitalization.

Auditee Response and Planned Corrective Actions: Management acknowledges the finding regarding the capital asset addition of \$106,779. We recognize that the entry was recorded prior to the transfer of control and the asset being placed in service. To address this, MWSC has initiated a formal review process for all capital asset additions. Effective immediately, no capital asset will be recorded in the general ledger without verified documentation confirming the asset has been received and is available for its intended use. Any payments made in advance will be correctly classified as deposits or construction-in-progress until the conditions for capitalization are met. Our accounting team will receive additional training on these capitalization criteria to ensure future compliance.

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

Schedule of Findings and Responses, continued

Finding No: 2023-002

Area: Non-recognition of Lease Agreements - (GASB 87 Noncompliance)

Criteria: GASB Statement No. 87 requires that lessees recognize a lease liability and an intangible right-of-use lease asset at the commencement of the lease term. All leases with a term greater than twelve months should be recorded and disclosed in the financial statements. Entities must identify, evaluate, and account for all lease arrangements to ensure completeness and accuracy.

Condition: During the year ended September 30, 2023, MWSC entered into lease agreements related to seven wetos in Laura Village. These lease agreements qualified for accounting and financial reporting under GASB Statement No. 87; however, MWSC has not recognized the related lease asset and lease liability associated with these lease agreements.

Cause: Lack of adequate internal control policies and procedures over the accounting and financial reporting for leases under GASB Statement No. 87.

Effect: The amount by which these matters would affect the assets, liabilities, net position, revenues, and expenses of the business-type activities of MWSC is not reasonably determinable. Such results in an audit scope limitation leading to a modified audit opinion.

Recommendation: We recommend management establish adequate internal control policies and procedures concerning the accounting and financial reporting for leases under GASB Statement No. 87.

Auditee Response and Planned Corrective Actions: Management acknowledges that the requirements of GASB Statement No. 87 were not fully integrated into our financial reporting procedures during the transition period. We accept the auditor's finding regarding the lease agreements in Laura Village. To address this, MWSC is committed to performing a comprehensive review of all lease arrangements to ensure future compliance. We will be implementing a new internal control checklist specifically for lease identification and accounting, and we are evaluating the need for specialized training or external consultation to ensure that GASB 87 requirements are accurately reflected in our future financial reporting.

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

Schedule of Findings and Responses, continued

Finding No: 2023-003
Area: Board Meeting Minutes

Criteria: Sound governance and internal control practices require that governing bodies maintain accurate and complete records of their meetings. Board minutes serve as an official record of decisions, approvals, and oversight activities, and are essential for demonstrating accountability and transparency.

Condition: During our audit, we noted that MWSC did not maintain minutes for meetings of the Board of Directors. Based on GL activity for the year ended September 30, 2023, sitting fees were paid to Board members for meetings on the following dates:

October 5, 2022	February 1, 2023	February 13, 2023
February 24, 2023	March 1, 2023	March 6, 2023

No formal documentation existed to evidence that meetings were held, actions were approved, or key decisions were made.

Cause: The condition appears to result from inadequate policies and procedures regarding the preparation, review, and retention of board meeting minutes, as well as a lack of clearly assigned responsibility for maintaining such records.

Effect: The absence of board minutes limits the ability to verify that appropriate governance and oversight functions are being performed. This increases the risk that significant decisions are not properly authorized or documented and reduces transparency and accountability to stakeholders.

Recommendation: We recommend that management implement formal policies requiring the timely preparation, review, and approval of board meeting minutes. Minutes should clearly document attendance, matters discussed, decisions made, and approvals granted. Additionally, responsibility for maintaining these records should be assigned to a designated individual, and procedures should be established to ensure proper retention and accessibility.

Auditee Response and Corrective Action Plan: Management acknowledges that the lack of formal board meeting minutes for the year ended September 30, 2023, is a recurring finding. We recognize that this documentation is critical for governance and transparency. To resolve this, MWSC has formally assigned the responsibility for minute-taking and record retention to the Chief Administrative Officer. We are currently maintaining these records for all meetings held in the current fiscal year to ensure full compliance and audit readiness.

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

Schedule of Findings and Responses, continued

Finding No: 2023-004

Area: Non-Compliance on Social Security and Health Fund Contributions

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 to the Marshall Islands Social Security Administration (MISSA) in a manner inconsistent with the criteria. Specifically, MWSC filed and paid social security and health fund contributions after the due date for all quarters related to the year ended September 30, 2023. At September 30, 2023, MWSC was delinquent on payment of the following quarters:

<u>Quarter Ended</u>	<u>Date Filed</u>	<u>SS Tax</u>	<u>HP Tax</u>	<u>Total</u>
09/30/2021	10/08/2021	\$ 22,088	\$ 8,997	\$ 31,085
12/31/2021	01/10/2022	24,385	9,891	34,276
03/31/2022	04/21/2022	25,817	10,257	36,074
12/31/2022	01/11/2023	---	736	736
03/31/2023	04/10/2023	30,547	11,789	42,336
06/30/2023	08/09/2023	26,765	10,627	37,392
09/30/2023	11/23/2023	<u>32,140</u>	<u>12,164</u>	<u>44,304</u>
		<u>\$161,742</u>	<u>\$64,461</u>	<u>\$226,203</u>

As of September 30, 2023, penalties and interest associated with these delinquent contributions amounted to approximately \$25,159.

In 2022, MWSC executed a promissory note with MISSA for delinquent contributions for the quarters ended June 30, 2021 to March 31, 2022 in the amount of \$141,264, with repayment commencing on June 28, 2022 in monthly payments of \$5,000. As of September 30, 2023, MWSC was noncompliant with the promissory note repayment terms and conditions.

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

Schedule of Findings and Responses, continued

Finding No: 2023-004, continued
Area: Non-Compliance on Social Security and Health Fund Contributions

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 resulting in the incurrence of penalties and interest.

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 Corrective Action Plan: Management acknowledges the finding regarding the delayed filing and payment of social security and health fund contributions for the year ended September 30, 2023. We wish to clarify that these identified liabilities have since been fully cleared in current dates. To ensure this historical issue does not recur, MWSC has implemented new internal control policies that mandate a rigorous monthly monitoring schedule to ensure all statutory filings and payments are executed by their respective due dates. We are committed to maintaining full compliance and have incorporated these procedures into our standard operating workflow.

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

Schedule of Findings and Responses, continued

Finding No: 2023-005

Area: Non-Compliance on RMI Withholding Income Taxes

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter.

Condition: MWSC filed and paid income taxes withheld for the year ended September 30, 2023 to the RMI Ministry of Finance, Banking and Postal Service (MOFBPS) in a manner inconsistent with the criteria. As of September 30, 2023, MWSC was liable for income taxes withheld in the amount of \$131,859, which included unremitted income taxes withheld from the prior year 2022. Subsequent to September 30, 2023, MWSC entered into a promissory note with MOFBPS and settled in full the payment of these delinquent unremitted income taxes.

As of September 30, 2023, penalties and interest associated with these delinquent contributions amounted to approximately \$14,222.

Cause: The cause of the above condition is the lack of policies and procedures to monitor timely filing of returns and payment of withheld income taxes.

Effect: The effect of the above condition is noncompliance with the RepMar Income Tax Act of 1989, as amended, resulting in the incurrence of penalties and interest.

Recommendation: We recommend that management establish policies and procedures to comply with the RepMar Income Tax Act of 1989, as amended.

Auditee Response and Planned Corrective Actions: Management acknowledges the finding regarding the non-compliance with RMI withholding income tax filing and payment requirements for the year ended September 30, 2023. We are actively working to resolve this matter and have committed to clearing all outstanding tax liabilities by September 30, 2026. Furthermore, to address the underlying cause of this finding, MWSC has established new internal control policies and procedures to ensure that all future withholding tax returns are filed and payments are remitted in strict accordance with 48 MIRC Chapter 1, Income Tax Act of 1989.