

**MAJURO WATER AND SEWER COMPANY, INC.**

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**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2005**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of Majuro Water and Sewer Company, Inc. (MWSC) as of and for the year ended September 30, 2005, and have issued our report thereon dated April 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

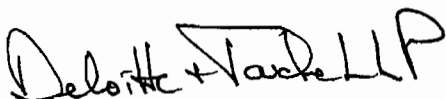
**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered MWSC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of MWSC in a separate letter dated April 15, 2006.

**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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2005-1 and 2005-2.

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



April 15, 2006

**MAJURO WATER AND SEWER COMPANY, INC.**

Schedule of Findings  
Year Ended September 30, 2005

Local Noncompliance

Finding No. 2005-1

Criteria: Section 5 of the RepMar Income Tax Act of 1989, as amended, states that the employer shall, once every four weeks or thirteen times per year, pay taxes withheld under Section 4 of the Act.

Condition: MWSC was late in filing and paying their income taxes for the fiscal year ended September 30, 2005. We noted number of days late ranged from thirteen days to one hundred two days. The following is a list of pay periods in which MWSC was late in filing and paying their taxes:

<u>Pay period</u>	<u>Amount</u>	<u>CR Date/ Date file</u>	<u>Due Date</u>	<u># of Days Late</u>
10/3/04 to 10/30/04	\$ 4,611	2/22/2005	11/13/2004	-101
10/27/04 to 11/27/04	4,556	2/22/2005	12/11/2004	-73
11/28/04 to 12/25/04	5,718	2/22/2005	1/8/2005	-45
12/26/04 to 1/22/05	4,381	2/22/2005	2/9/2005	-13
1/23/05 to 2/19/05	4,464	3/22/2005	3/2/2005	-20
2/21/05 to 3/19/05	4,154	7/13/2005	4/2/2005	-102
3/20/05 to 4/16/05	4,160	7/13/2005	6/30/2005	-13
4/17/05 to 5/14/05	4,160	7/13/2005	5/28/2005	-46
5/15/05 to 6/11/05	4,564	9/27/2005	6/25/2005	-94
6/12/05 to 7/9/05	4,847	9/27/2005	7/20/2005	-69
7/10/05 to 8/6/05	4,284	9/27/2005	8/20/2005	-38
8/7/05 to 9/17/05	6,808	11/9/2005	10/1/2005	-39
9/18/05 to 10/15/05	2,097	11/29/2005	10/29/2005	-31

Cause: The cause of the above condition is that tax payments are not made in accordance with the law.

Effect: The effect of the above condition is noncompliance with RepMar Income Tax Act of 1989.

Recommendation: We recommend that MWSC comply with the Income Tax Act of 1989, as amended.

Auditee Response: We acknowledge the MWSC was late on a number of occasions in remitting withholding taxes. Part of the cause of this problem has been lack of available cash. Instructions have been issued to remit the taxes on time whenever possible thereby reducing the incidences of non-compliance in the future.

## MAJURO WATER AND SEWER COMPANY, INC.

Schedule of Findings, Continued  
Year Ended September 30, 2005

### Promissory Note

#### Finding No. 2005-2

Criteria: On October 5, 2003, MWSC entered into a promissory note agreement for the repayment of certain delinquent taxes payable in the amount of \$138,601. The terms of the agreement include interest at 6% per annum to be repaid over a period of twenty-four months commencing October 30, 2003. Total repayment for FY2005 should have been \$88,217, of which \$85,430, and \$2,787 are paid for principal and interest, respectively.

Condition: At September 30, 2005, the remaining balance on the note was \$141,041; only a total of \$16,542 was paid during the year for delinquent taxes. On January 30, 2006, another promissory note was executed with RepMar to pay-off the principal unpaid income taxes of \$141,041 including interest and penalties of \$34,081.

Cause: The cause of the above condition is the lack of internal control procedures to ensure compliance with the Income Tax Act of 1989, as amended, and related promissory note agreements.

Effect: The effect of the above condition is noncompliance with the Income Tax Act of 1989, as amended.

Recommendation: We recommend that MWSC comply with the Income Tax Act of 1989, as amended. Furthermore, we recommend that MWSC comply with the promissory note executed with RepMar for the repayment of delinquent income tax withholdings.

Auditee Response: We acknowledge the MWSC was not able to remit sufficient funds to RepMar to satisfy the conditions of the promissory note entered into on 30<sup>th</sup> October 2003. Part of the cause of this problem has been lack of available cash. Instructions have been issued to remit the taxes on time whenever possible thereby reducing the incidences of non-compliance in the future.

**MAJURO WATER AND SEWER COMPANY, INC.**

Schedule of Findings, Continued  
Year Ended September 30, 2005

There are no unresolved prior year findings or matters of noncompliance from prior year audits of MWSC.