

MAJURO WATER AND SEWER COMPANY, INC.

**(A COMPONENT UNIT OF THE
REPUBLIC OF THE MARSHALL ISLANDS)**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

INDEPENDENT AUDITORS' REPORT

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

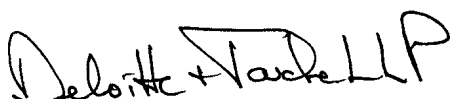
We have audited the accompanying statements of net assets of Majuro Water and Sewer Company, Inc. (MWSC), a component unit of the Republic of the Marshall Islands, as of September 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of MWSC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MWSC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MWSC as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of MWSC's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2010, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



July 7, 2010

MAJURO WATER AND SEWER COMPANY, INC.

Management's Discussion and Analysis Year Ended September 30, 2009

This section of the Majuro Water and Sewer Company, Inc. (MWSC) annual financial report presents management's discussion and analysis of MWSC's financial performance during the fiscal year ended 30th September, 2009. This discussion has been prepared by management along with the financial statements and related footnote disclosure and should be read in conjunction with them. Management assumes full responsibility for the completeness and reliability of information presented in this report.

FINANCIAL HIGHLIGHTS

MWSC's net assets decreased by \$61,946 in 2009 compared to an increase of \$916,039 in 2008. This was due to the subsidy of \$346,928 received in 2009 compared to the subsidy of \$1,258,763 received in 2008.

An operating subsidy of \$1,258,763 was received from the Republic of the Marshall Islands (RepMar) for fiscal year ended September 2008. This was used to pay the long standing electricity debt owed to Marshalls Energy Company, Inc. (MEC) for past due electricity bills. For fiscal year ended September 30, 2009, MWSC received a subsidy of \$346,928, which was also used to pay for MEC electricity debt.

Total operating revenue decreased by \$129,329 compared to an increase in revenue of \$77,908 in 2008. Within operating revenues, billings decreased from \$885,034 in 2008 to \$780,191 (12%) in 2009. The continued decreasing trend in billings is due at least in part to the increase in water tariffs introduced back in October 2007. Furthermore, there has been a steady increase in MWSC's uncollectable accounts. Other operational factors such as illegal water hookups and water shortages may also play a role in the decreasing billing activity.

Operating expenses decreased by \$80,083 from \$1,422,261 in 2008 to \$1,342,178 mainly because of the decrease in electricity costs and petroleum expenses in the amount of \$55,102 and \$37,056, respectively. The Statement of Cash Flows reveals the operating activities of MWSC generated net cash inflows of \$69,130 in 2009 compared to a net cash inflow of \$40,553 for 2008.

FINANCIAL ANALYSIS OF MWSC

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide an indication of MWSC's financial condition. MWSC's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

A summary of MWSC's Statement of Net Assets is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current Assets	\$ 358,246	\$ 356,543	\$ 258,927
Capital Assets Net	<u>59,445</u>	<u>44,880</u>	<u>31,324</u>
Total Assets	<u>417,691</u>	<u>401,423</u>	<u>290,251</u>
Current Liabilities	<u>265,306</u>	<u>187,092</u>	<u>991,959</u>
Total Liabilities	<u>265,306</u>	<u>187,092</u>	<u>991,959</u>
Net Assets:			
Invested in Capital Assets	59,445	44,880	31,324
Unrestricted	<u>92,940</u>	<u>169,451</u>	<u>(733,032)</u>
Total Net Assets	<u>\$ 152,385</u>	<u>\$ 214,331</u>	<u>\$ (701,708)</u>

MAJURO WATER AND SEWER COMPANY, INC.

Management's Discussion and Analysis, Continued Year Ended September 30, 2009

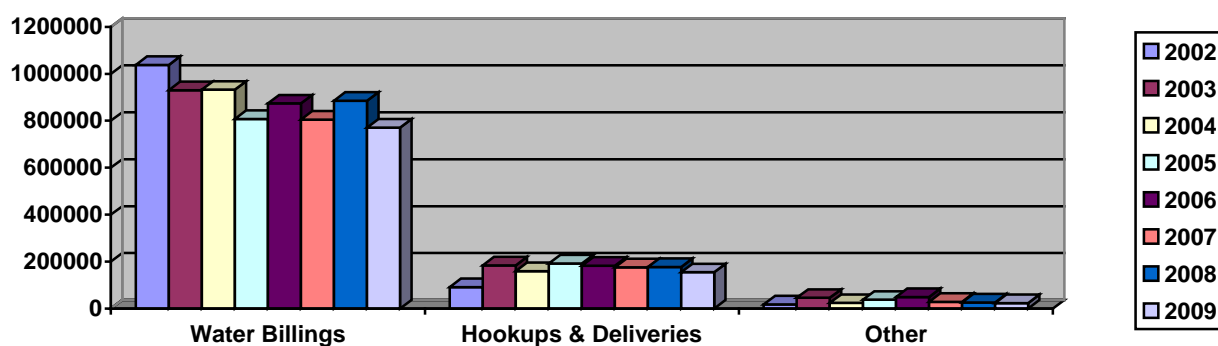
As indicated above, total assets slightly increased by \$16,268 from \$401,423 in 2008 to \$417,691 in 2009. Total liabilities reflect an increase of \$78,214 from \$187,092 in 2008 to \$265,306 in 2009. Total Net Assets decreased by \$61,946 from a surplus of \$214,331 in 2008 to \$152,385 in 2009. There were no non-current liabilities at 30th September 2009 or 2008 nor did MWSC incur any long-term debt obligations during 2009 or 2008.

A summary of MWSC's Statement of Revenues, Expenses and Changes in Net Assets is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:			
Operating revenues	\$ 958,714	\$ 1,088,043	\$ 1,010,135
Nonoperating revenues	<u>346,928</u>	<u>1,258,763</u>	<u>349,404</u>
Total revenues	<u>1,305,642</u>	<u>2,346,806</u>	<u>1,359,539</u>
Expenses:			
Operating expenses	1,342,178	1,422,261	1,272,521
Non-operating expenses	<u>25,410</u>	<u>8,506</u>	_____
Total expenses	<u>1,367,588</u>	<u>1,430,767</u>	<u>1,272,521</u>
Change in net assets	<u>\$ (61,946)</u>	<u>\$ 916,039</u>	<u>\$ 87,018</u>

The Statement of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items that impacted on the change in net assets. As indicated above, MWSC's operating revenues decreased by \$129,329 or approximately 12% from \$1,088,043 in 2008 to \$958,714 in 2009. Utility billings also decreased by \$104,843 or 12% over 2009. Nonoperating revenues represent subsidies received from RepMar. The subsidy received in 2007 was in two parts. There was a subsidy of \$250,000 received which was used to pay a portion of the long standing debt to MEC for past due electricity accounts. The remainder, \$99,404 was utilized as an operating subsidy. The subsidy received in 2008 of \$1,258,763 was applied in its entirety to the overdue electricity bills owed to MEC. The subsidy in 2009 of \$346,928 represents RepMar's continued financial support to assist MWSC with the payment of the monthly electricity bills owed to MEC.

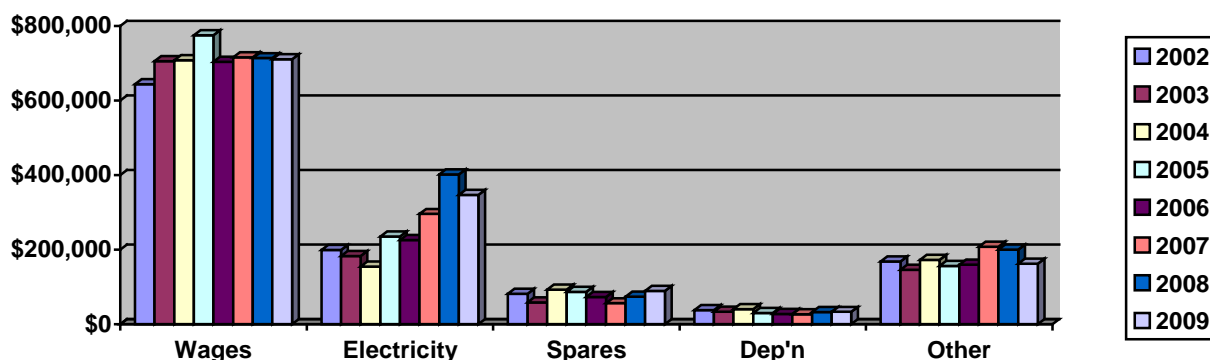
The graph below shows the major components of operating revenue for 2009 compared with the years 2002 through to 2009:



MAJURO WATER AND SEWER COMPANY, INC.

Management's Discussion and Analysis, Continued Year Ended September 30, 2009

Operating expenses decreased by \$80,083 or approximately 6% to \$1,342,178 in 2009 from \$1,422,261 in 2008. The operating loss increased by \$49,246 from \$334,218 in 2008 to \$383,464 in 2009. This was largely due to the decrease in overall operating revenues of \$129,329 offset by reductions in operating expenses, including electricity bills, amounting to \$80,083. The graph below shows the major components of operating expenses for 2009 compared with the years 2002 through to 2009:



CAPITAL ASSETS

Net capital assets increased by \$14,565 in 2009 as a result of the acquisition of two motor vehicles for a total cost of approximately \$45,000 and miscellaneous office and other equipment costing \$2,699 less total depreciation for the year of \$33,134. A summary of MWSC's capital assets is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Motor Vehicles	\$ 141,000	\$ 116,582	\$ 130,985
Machinery and Equipment	93,481	94,318	101,632
Office Equipment	31,923	34,580	42,290
Buildings and Leasehold Improvements	<u>54,317</u>	<u>54,317</u>	<u>54,317</u>
	320,721	299,797	329,224
Less Accumulated Depreciation	<u>(261,276)</u>	<u>(254,917)</u>	<u>(297,900)</u>
	<u>\$ 59,445</u>	<u>\$ 44,880</u>	<u>\$ 31,324</u>

Refer to note 4 to the accompanying financial statements for additional information relating to capital assets.

FUTURE OUTLOOK ON SUSTAINABILITY

MWSC water and sewer infrastructures are at a high risk and in a serious state of deteriorating conditions. As infrastructures continue to wear out with time, lack of funding for proper maintenance and other environmental impacts, MWSC capacity decreases and capacity needs are on the rise due increased customer base. For future sustainability, the following will need to be addressed and incorporated into MWSC's long term strategies and goals:

- 1.) Promote better management of water and wastewater utilities which encompasses best practices to include asset management. MWSC needs to be able to carry out an ongoing process of oversight, evaluation, maintenance and replacement of their assets as needed to maximize the useful life infrastructure.

MAJURO WATER AND SEWER COMPANY, INC.

Management's Discussion and Analysis, Continued
Year Ended September 30, 2009

- 2.) Achieve full cost recovery, which will help MWSC to capture its actual cost of operations, raise revenues and also to help conserve water. Like many utility companies, MWSC is faced with the challenges of balancing its social responsibility to ensure that water is accessible and affordable to promote quality of life versus generating sufficient income to sustain its core operations. As such, MWSC may not be able to recover its full cost in its entirety and may continue to place reliance and dependency on RepMar to subsidize the deficiency.
- 3.) Efficient water use is critical factor especially with water shortages that the RMI may experience due to lack of capacity or seasonal droughts. Incentives and educational programs will encourage more efficient use of water and to protect the water resources among the RMI community.

MWSC'S FOCUS IN THE COMING FISCAL YEAR

MWSC has continued to incur losses from operations during the years ended September 30, 2009 and 2008 in the amounts of \$383,464 and \$334,218, respectively. MWSC will continue to monitor operating expenses and maintain tight fiscal constraints and control over cash and will continue to endeavor to improve collections. The ongoing viability of MWSC as a going concern will continue to be dependent upon future financial support of RepMar in the form of:

- Timely payment by RepMar for the cost of actual utility services provided,
- Collection of long outstanding utility receivables,
- Continuing improvements in operations.

Following are specific MWSC's goals for the coming fiscal year to include but not limited to:

- 1.) Obtain funding for the purchase of a water and sewer truck. The acquisition of the aforementioned capital assets will increase revenues resulting from increased water deliveries and septic tank services, respectively.
- 2.) The purchase of a generator is necessary to sustain daily water and septic operations during power outages.
- 3.) Initiate opportunities to install a reverse osmosis system for increased fresh water capacity.
- 4.) Reduce illegal water connections and enforce penalties, as appropriate.
- 5.) Ensure timely filing and payment of taxes to include social security (MISSA) and withholding taxes to avoid late and hefty penalty fees.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide MWSC's customers and other stake holders with an overview of MWSC's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Majuro Water and Sewer Company, Inc. General Manager at P.O. Box 1751, Majuro MH 96960.

MAJURO WATER AND SEWER COMPANY, INC.

Statements of Net Assets
September 30, 2009 and 2008

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
Current assets:		
Cash	\$ 42,297	\$ 55,272
Receivables:		
Utility	1,549,423	1,391,569
Affiliates	132,026	193,432
Other	2,470	3,238
	<u>1,683,919</u>	<u>1,588,239</u>
Less allowance for doubtful accounts	<u>(1,526,588)</u>	<u>(1,411,974)</u>
	<u>157,331</u>	<u>176,265</u>
Inventory	148,001	125,006
Prepaid expenses	10,617	-
Total current assets	<u>358,246</u>	<u>356,543</u>
Capital assets, net	<u>59,445</u>	<u>44,880</u>
	<u>\$ 417,691</u>	<u>\$ 401,423</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 40,950	\$ 32,066
Social security taxes payable	67,940	35,754
Withholding taxes payable	51,971	61,777
Payable to affiliates	-	17,850
Deferred revenue	43,915	-
Other accrued liabilities	60,530	39,645
Total current liabilities	<u>265,306</u>	<u>187,092</u>
Commitment and contingency		
Net assets:		
Invested in capital assets	59,445	44,880
Unrestricted	92,940	169,451
Total net assets	<u>152,385</u>	<u>214,331</u>
	<u>\$ 417,691</u>	<u>\$ 401,423</u>

See accompanying notes to financial statements.

MAJURO WATER AND SEWER COMPANY, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Utility billings	\$ 894,805	\$ 991,990
Hook-up and deliveries	154,675	177,244
Other	23,848	25,765
	<u>1,073,328</u>	<u>1,194,999</u>
Less uncollectable accounts	<u>(114,614)</u>	<u>(106,956)</u>
Total operating revenues	<u>958,714</u>	<u>1,088,043</u>
Operating expenses:		
Salaries, wages and benefits	710,389	713,737
Electricity	346,742	401,844
Spare parts	89,390	73,731
Depreciation and amortization	33,134	32,850
Petroleum, oil and lubricants	28,595	65,651
Communications	21,630	24,210
Insurance	20,950	19,305
Office supplies	19,722	12,871
Contractual services	15,838	28,104
Repairs and maintenance	9,703	2,457
Travel	2,617	-
Miscellaneous	43,468	47,501
Total operating expenses	<u>1,342,178</u>	<u>1,422,261</u>
Operating loss	<u>(383,464)</u>	<u>(334,218)</u>
Nonoperating revenues (expenses):		
RepMar subsidy	346,928	1,258,763
Penalties and interest	<u>(25,410)</u>	<u>(8,506)</u>
Total nonoperating revenues (expenses), net	<u>321,518</u>	<u>1,250,257</u>
Change in net assets	(61,946)	916,039
Net assets at beginning of year	<u>214,331</u>	<u>(701,708)</u>
Net assets at end of year	<u>\$ 152,385</u>	<u>\$ 214,331</u>

See accompanying notes to financial statements.

MAJURO WATER AND SEWER COMPANY, INC.

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	\$ 1,045,321	\$ 1,039,669
Cash payments to suppliers for goods and services	(297,390)	(278,762)
Cash payments to employees for services	(678,801)	(720,354)
Net cash provided by operating activities	69,130	40,553
Cash flows from noncapital financing activities:		
RepMar subsidy	-	75,000
Principal payments on RepMar promissory note	(26,800)	(27,200)
Penalties and interest paid	(7,606)	(11,604)
Net cash provided by (used for) noncapital financing activities	(34,406)	36,196
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(47,699)	(46,476)
Net cash used for capital and related financing activities	(47,699)	(46,476)
Net change in cash	(12,975)	30,273
Cash at beginning of year	55,272	24,999
Cash at end of year	\$ 42,297	\$ 55,272
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (383,464)	\$ (334,218)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	33,134	32,850
Bad debts	114,614	106,956
Loss on disposal of fixed assets	-	70
(Increase) decrease in assets:		
Receivables:		
Utility	(157,854)	(56,119)
Affiliates	61,406	(100,420)
Other	768	1,209
Inventory	(22,995)	(2,802)
Prepaid expenses	(10,617)	8,233
Increase (decrease) in liabilities:		
Accounts payable	8,884	9,451
Social security taxes payable	32,186	(11,838)
Payable to affiliates	329,078	399,879
Deferred revenue	43,915	-
Other accrued liabilities	20,075	(12,698)
Net cash provided by operating activities	\$ 69,130	\$ 40,553
Summary of noncash financing activities:		
RepMar subsidy	\$ 346,928	\$ 1,159,363
Decrease in payables to affiliates	(346,928)	(1,159,363)
	\$ -	\$ -

See accompanying notes to financial statements.

MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements
September 30, 2009 and 2008

(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, waste water 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, waste water and sewer system. The term of both the lease and the franchise was for a ten year period commencing on March 9, 1989, and was to continue thereafter unless terminated by either party six months after written notice to the other.

On February 19, 2003, RepMar and MWSC entered into a Water and Sewer Franchise Agreement (the Agreement) to provide water and sewer service to the atoll of Majuro. The Agreement incorporates a lease agreement for MWSC to lease from RepMar the water and sewer system for a period of ten years at a rate of \$100,000 per annum, commencing three years after the lease is in effect (February 19, 2006). The Agreement also forgave loans related to the construction of the water and sewer system and transferred the water system infrastructure to RepMar. RepMar and MWSC elected to record the forgiveness of these loans, and the related transfer of the water and sewer system asset from MWSC to RepMar, during the year ended September 30, 2002.

MWSC'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 as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. MWSC has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, establishes 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.

Notes to Financial Statements
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

To conform to the requirements of GASB Statement 34, retained earnings are presented in the following net asset categories:

- Investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets 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.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net assets. 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. MWSC considers utility revenues and costs that are directly related to utility operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

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 assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2009 and 2008, cash was \$42,297 and \$55,272, respectively, and the corresponding bank balances were \$35,328 and \$59,724, respectively, which are maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits were fully FDIC insured.

MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

Receivables

All receivables are due from government agencies, businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for doubtful 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 collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Inventory

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

Plant and Equipment

Plant and equipment 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 three years or longer are capitalized. The estimated useful lives of these assets are as follows:

Vehicles	2 - 4 years
Office equipment	3 - 8 years
Buildings and leasehold improvements	4 years
Machinery and equipment	5 - 10 years

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 revenue 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 exempt from this tax relating to gross revenue from sales of water and sewer services.

Revenue Recognition

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.

MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2009, the MWSC implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MWSC.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MWSC.

MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MWSC.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MWSC.

(3) 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 not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, MWSC believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. No losses as a result of these risks have occurred in any of the past three years.

(4) Capital Assets

Capital asset activity for the years ended September 30, 2009 and 2008, was as follows:

	2009			September 30, 2009
	October 1, 2008	Additions	Retirements	
Vehicles	\$ 116,582	\$ 45,000	\$ (20,582)	\$ 141,000
Machinery and equipment	94,318	2,299	(3,136)	93,481
Office equipment	34,580	400	(3,057)	31,923
Buildings and leasehold improvements	<u>54,317</u>	-	-	<u>54,317</u>
	299,797	47,699	(26,775)	320,721
Less accumulated depreciation and amortization	<u>(254,917)</u>	<u>(33,134)</u>	<u>26,775</u>	<u>(261,276)</u>
	<u>\$ 44,880</u>	<u>\$ 14,565</u>	<u>\$ -</u>	<u>\$ 59,445</u>

MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements September 30, 2009 and 2008

(4) Capital Assets, Continued

	2008			
	October 1, <u>2007</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2008</u>
Vehicles	\$ 130,985	\$ 38,750	\$ (53,153)	\$ 116,582
Machinery and equipment	101,632	887	(8,201)	94,318
Office equipment	42,290	6,839	(14,549)	34,580
Buildings and leasehold improvements	<u>54,317</u>	<u>-</u>	<u>-</u>	<u>54,317</u>
	329,224	46,476	(75,903)	299,797
Less accumulated depreciation and amortization	<u>(297,900)</u>	<u>(32,850)</u>	<u>75,833</u>	<u>(254,917)</u>
	<u>\$ 31,324</u>	<u>\$ 13,626</u>	<u>\$ (70)</u>	<u>\$ 44,880</u>

(5) Withholding Taxes Payable

At September 30, 2009 and 2008, MWSC was liable for delinquent withholding taxes payable to RepMar in the amount of \$30,748 and \$58,358, respectively, and related penalties and interest in the amount of \$21,223 and \$3,419, respectively. On January 30, 2006, a promissory note was refinanced whereby MWSC agreed to repay the sum of \$164,048 plus penalties and interest of \$29,336 over a period of twenty-seven months. The terms of the agreement include interest at 12% per annum commencing January 30, 2006. Changes in MWSC's promissory note payable to RepMar for the years ended September 30, 2009 and 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending Balance</u>
2009	\$ <u>41,648</u>	\$ <u>-</u>	\$ <u>(26,800)</u>	\$ <u>14,848</u>
2008	\$ <u>68,848</u>	\$ <u>-</u>	\$ <u>(27,200)</u>	\$ <u>41,648</u>

MWSC did not comply with the repayment terms of this promissory note. Accordingly, this payable is reflected as a current liability in the accompanying financial statements.

(6) Related Party Transactions

MWSC is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities.

During the years ended September 30, 2009 and 2008, MWSC received an operating subsidy from RepMar in the amount of \$346,928 and \$1,258,763, respectively, of which \$346,928 and \$1,159,363, respectively, was paid directly to the Marshalls Energy Company, Inc. as payment on outstanding electricity billings owed by MWSC. At September 30, 2009 and 2008, operating subsidies due from RepMar amounted to \$0 and \$24,400, respectively.

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.

MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements
September 30, 2009 and 2008

(6) Related Party Transactions, Continued

MWSC utilizes services from certain affiliated entities at substantially more favorable terms and conditions than those provided to third parties.

A summary of related party transactions for the years ended September 30, 2009 and 2008, and related receivable and payable balances as of September 30, 2009 and 2008, is as follows:

	2009			
	Revenues	Expenses	Receivables	Payables
RepMar	\$ 241,676	\$ 23,788	\$ 69,063	\$ 51,971
Marshalls Energy Company, Inc.	7,430	357,362	23,158	-
Marshall Islands National Telecommunications Authority	10,585	13,030	614	-
Marshall Islands Social Security Administration	1,091	63,763	131	67,940
Majuro Resort, Inc.	49,004	-	10,358	-
Other	<u>32,029</u>	<u>2,669</u>	<u>28,702</u>	<u>-</u>
	<u>\$ 341,815</u>	<u>\$ 460,612</u>	<u>\$ 132,026</u>	<u>\$ 119,911</u>
	2008			
	Revenues	Expenses	Receivables	Payables
RepMar	\$ 198,369	\$ 92,926	\$ 134,436	\$ 61,777
Marshalls Energy Company, Inc.	19,635	401,844	25,832	16,711
Marshall Islands National Telecommunications Authority	8,577	14,428	1,239	1,139
Marshall Islands Social Security Administration	856	61,621	83	35,754
Majuro Resort, Inc.	58,435	-	13,385	-
Other	<u>45,206</u>	<u>11,043</u>	<u>18,457</u>	<u>-</u>
	<u>\$ 331,078</u>	<u>\$ 581,862</u>	<u>\$ 193,432</u>	<u>\$ 115,381</u>

Receivables from and payables to affiliates are uncollateralized, are interest free and have no set repayment terms except as disclosed in note 5.

(7) Commitment

On February 19, 2003, RepMar and MWSC entered into a franchise agreement to provide water and sewer service to the atoll of Majuro. The agreement incorporates a lease agreement for MWSC to lease from RepMar the water and sewer system for a period of ten years at a rate of \$100,000 per annum, commencing three years after the lease is in effect (February 19, 2006).

Total future minimum lease payments for subsequent years ending September 30, are as follows:

<u>Year ending</u> <u>September 30,</u>	
2010	\$ 466,667
2011	100,000
2012	100,000
2013	100,000
2014	100,000
2015-2016	<u>133,333</u>
	<u>\$ 1,000,000</u>

MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements
September 30, 2009 and 2008

(7) Commitment, Continued

During the years ended September 30, 2009 and 2008, MWSC did not record the liability per the franchise agreement due to lack of capacity to make the payments in the foreseeable future. MWSC essentially depends on financing from RepMar and MEC to be able to continue as a going concern. Thus, management will negotiate the franchise terms with RepMar. If negotiations fail, MWSC may become liable for the above amounts but management does not believe that it will possess the ability to liquidate that liability.

(9) Going Concern

MWSC has incurred losses from operations of \$383,464 and \$334,218 during the years ended September 30, 2009 and 2008, respectively. Management believes that the continuation of MWSC's operations is dependent upon the future financial support of RepMar, compensation by RepMar for the cost of actual utility service provided, the collection of long outstanding utility receivables, and/or significant improvements in operations, among other matters. Additionally, in order for MWSC to continue as a going concern, it may need to delay payments to the Marshalls Energy Company, Inc. for electric usage or to delay payments to RepMar for delinquent employee withholding taxes.