

MAJURO WATER AND SEWER COMPANY, INC.

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

YEAR ENDED SEPTEMBER 30, 2004

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, 2004, and have issued our report thereon dated December 21, 2004. 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.

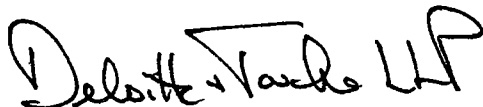
Internal Control Over Financial Reporting

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 December 21, 2004.

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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2004-1.

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.



December 21, 2004

MAJURO WATER AND SEWER COMPANY, INC.

Schedule of Findings
Year Ended September 30, 2004

Local Noncompliance

Finding No. 2004-1

Criteria: Section 5 of the Republic of the Marshall Islands (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: At September 30, 2004, MWSC owed RepMar \$198,073 in income tax withholdings from employee wages. Of this amount, \$115,487 relates to amounts owing under a promissory note agreement executed on October 5, 2003, with the remaining amount of \$82,586 relating to income tax withholdings from eleven pay periods during fiscal year 2004 for which the income tax returns have been filed but not paid. Under the promissory note agreement, MWSC was required to make payments totaling \$88,223 during fiscal year 2004; however, only payments totaling \$23,114 were actually made.

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: Management acknowledges the findings and procedures have been put in place to ensure that the condition does not happen again.

MAJURO WATER AND SEWER COMPANY, INC.

Schedule of Findings
Year Ended September 30, 2004

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