

MAJURO WATER AND SEWER COMPANY, INC.

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

INDEPENDENT AUDITORS' REPORT

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

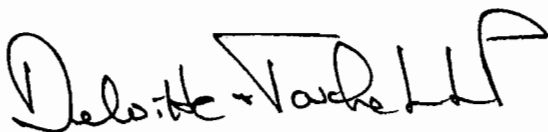
We have audited the accompanying statements of net assets of Majuro Water and Sewer Company, Inc. (MWSC), a component unit of the Republic of the Marshall Islands, as of September 30, 2004 and 2003, and the related statements of revenue, expenses and changes in net assets and cash flows for the years 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2004 and 2003, and the results of its operations 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 4 is not a required part of the basic financial statements but is supplementary information required by GASB. 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 December 21, 2004, on our consideration of MWSC's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our 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 read in conjunction with this report in considering the results of our audit.



December 21, 2004

MAJURO WATER AND SEWER COMPANY, INC.

Management's Discussion and Analysis Year Ended September 30, 2004

This section of the Majuro Water and Sewer Company, Inc. (MWSC) annual financial report presents our discussion and analysis of MWSC's financial performance during the fiscal year that ended on September 30, 2004. It is to be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

MWSC's net assets decreased by \$115,175 compared to a decrease of \$1,720 in 2003. Total revenue decreased by \$93,135 or 8% from \$1,209,348 in 2003 to \$1,116,213 in 2004. Within operating revenues, water billings were stable with a minor increase of \$1,852 from \$930,562 in 2003 to \$932,414 in 2004. Operating expenses were also stable at \$1,170,755 in 2004 compared to \$1,167,262 in 2003 which reflects management's maintenance of both budgetary and cash flow controls. No operating subsidies were received from the General Fund of the Republic of the Marshall Islands (RepMar) for 2004. A subsidy of \$48,752 was received in 2003.

FINANCIAL ANALYSIS OF MWSC

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provides 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>2004</u>	<u>2003</u>
Current Assets	\$ 329,444	\$ 499,936
Capital Assets	<u>95,980</u>	<u>92,949</u>
Total Assets	<u>425,424</u>	<u>592,885</u>
Current Liabilities	686,220	366,713
Non-current Liabilities	<u>190,130</u>	<u>561,923</u>
Total Liabilities	<u>876,350</u>	<u>928,636</u>
Net Assets:		
Invested in Capital Assets	95,980	92,949
Unrestricted	<u>(546,906)</u>	<u>(428,700)</u>
Total Net Assets	<u>\$ (450,926)</u>	<u>\$ (335,751)</u>

As indicated above, total assets decreased by \$167,461 or 28% from \$592,885 in 2003 to \$425,424 in 2004. Most of this decrease is reflected in the decrease in receivables from affiliates of \$227,339 from \$432,343 in 2003 to \$205,004 in 2004 and an increase in utility receivables of \$45,687 or 3%.

Total liabilities reflect a decrease of \$52,286 or 6.0% from \$928,636 in 2003 to \$876,350 in 2004. This decrease is represented by an increase in current liabilities of \$124,297 or 22% from \$561,923 in 2003 to \$686,220 in 2004. Non-current liabilities decreased by \$176,583 or 48% to \$190,130 in 2004 from \$366,713 in 2003. The majority of this is represented by an increase in withholding tax payable of \$22,908, an increase in payables to affiliates of \$28,667 and a decrease in social security taxes payable of \$84,824.

MAJURO WATER AND SEWER COMPANY, INC.

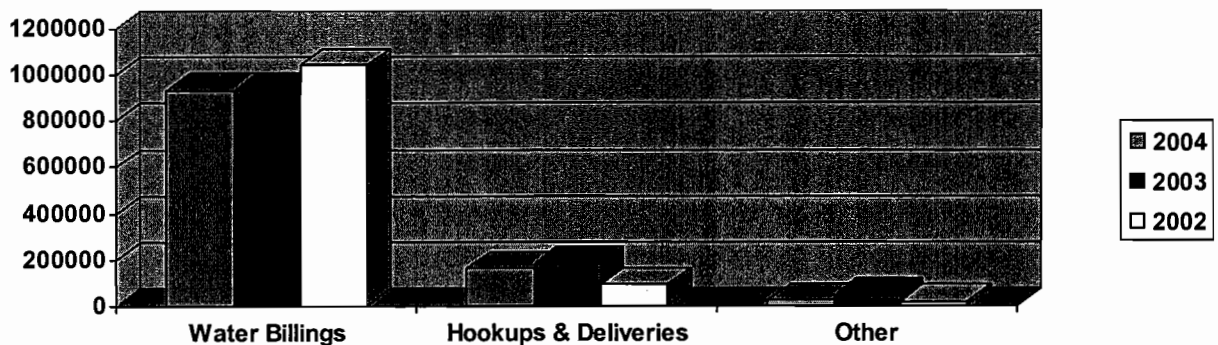
Management's Discussion and Analysis, Continued
Year Ended September 30, 2004

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

	<u>2004</u>	<u>2003</u>
Revenues:		
Operating revenues	\$ 1,116,213	\$ 1,160,596
Non-operating revenues	<u> -</u>	<u> 48,752</u>
Total revenues	<u>1,116,213</u>	<u>1,209,348</u>
Expenses:		
Operating expenses	1,170,755	1,167,262
Non-operating expenses	<u> 60,633</u>	<u> 43,806</u>
Total expenses	<u>1,231,388</u>	<u>1,211,068</u>
Income (loss) before capital contributions	(115,175)	(1,720)
Capital contributions	<u> -</u>	<u> -</u>
Change in net assets	<u>\$ (115,175)</u>	<u>\$ (1,720)</u>

The Statement of Revenue, Expenses and Changes in Net Assets identifies the various revenue and expense items that impacted on the change in net assets. As indicated above, MWSC's total revenues decreased by \$93,135 or 8% from \$1,209,348 in 2003 to \$1,116,213 in 2004. Water billings were stable with a minor increase of \$1,852 from \$930,562 in 2003 to \$932,414 in 2004. \$46,235 of the net decrease in total revenue reflects a reduction in hookup, delivery and other revenue. In addition, no subsidy was received from RepMar in 2004, whereas in 2003 an operating subsidy of \$48,752 was received.

The graph below shows the major components of operating revenues for 2004 compared with 2003 and 2002:

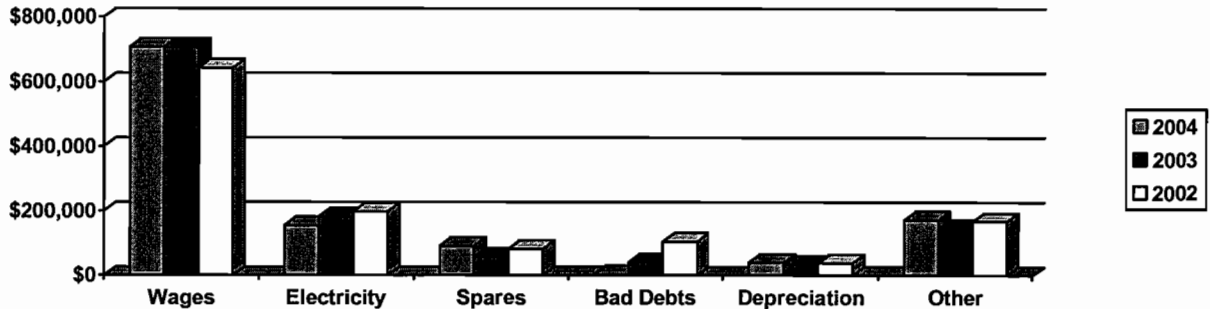


Total expenses increased marginally by \$3,493 from \$1,167,262 in 2003 to \$1,170,755 in 2004. This reflects management's commitment to maintain tight and effective control over both expenses and cash flow.

MAJURO WATER AND SEWER COMPANY, INC.

Management's Discussion and Analysis, Continued Year Ended September 30, 2004

The graph below shows the major components of operating expenses for 2004 compared with 2003 and 2002:



CAPITAL ASSETS

Net capital assets increased by \$3,031 in 2004 as a result of the acquisition of motor vehicles and machinery and equipment and minor office equipment totaling \$43,303, less depreciation for the year of \$40,272. A summary of MWSC's capital assets is presented below:

	<u>2004</u>	<u>2003</u>
Motor Vehicles	\$ 168,653	\$ 137,904
Machinery and Equipment	114,395	103,387
Office Equipment	95,892	94,346
Buildings and Leasehold Improvements	<u>54,317</u>	<u>54,317</u>
	433,257	389,954
Less Accumulated Depreciation	<u>(337,277)</u>	<u>(297,005)</u>
	<u>\$ 95,980</u>	<u>\$ 92,949</u>

ECONOMIC FACTORS

MWSC will continue to monitor operating expenses and maintain tight fiscal constraints and control over utility receivables in order to improve cash 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:

- a) compensation by RepMar for the cost of actual utility service provided,
- b) the collection of long outstanding utility receivables, and
- c) continuing improvements in operations.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide MWSC's customers and other interested parties 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, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current assets:		
Cash	\$ 49,141	\$ 43,971
Receivables:		
Utility	1,347,165	1,301,478
Affiliates	205,004	432,343
Other	9,926	11,442
	<u>1,562,095</u>	<u>1,745,263</u>
Less allowance for doubtful accounts	<u>(1,425,337)</u>	<u>(1,429,576)</u>
	<u>136,758</u>	<u>315,687</u>
Inventory	130,691	138,238
Prepaid expenses	<u>12,854</u>	<u>2,040</u>
Total current assets	329,444	499,936
Plant and equipment, net	<u>95,980</u>	<u>92,949</u>
	<u>\$ 425,424</u>	<u>\$ 592,885</u>

LIABILITIES AND NET ASSETS (DEFICIT)

Current liabilities:		
Accounts payable	\$ 24,660	\$ 36,599
Social security taxes payable	128,135	121,806
Withholding taxes payable	198,073	89,735
Payable to affiliates	286,680	258,013
Other accrued liabilities	48,672	55,770
Total current liabilities	<u>686,220</u>	<u>561,923</u>
Noncurrent liabilities:		
Social security taxes payable, net of current portion	190,130	281,283
Withholding taxes payable, net of current portion	-	85,430
Total noncurrent liabilities	<u>190,130</u>	<u>366,713</u>
Total liabilities	<u>876,350</u>	<u>928,636</u>
Commitment and contingency		
Net assets (deficit):		
Invested in capital assets	95,980	92,949
Unrestricted	<u>(546,906)</u>	<u>(428,700)</u>
Total net deficit	<u>(450,926)</u>	<u>(335,751)</u>
	<u>\$ 425,424</u>	<u>\$ 592,885</u>

See accompanying notes to financial statements.

MAJURO WATER AND SEWER COMPANY, INC.

Statements of Revenues, Expenses and Changes in Net Deficit
Years Ended September 30, 2004 and 2003

	2004	2003
Operating revenues:		
Utility billings	\$ 932,414	\$ 930,562
Hook-up and deliveries	159,749	184,160
Other	24,050	45,874
Total operating revenues	1,116,213	1,160,596
Operating expenses:		
Salaries, wages and benefits	708,336	705,542
Electricity	154,572	182,906
Spare parts	92,680	58,685
Depreciation and amortization	40,272	33,904
Petroleum, oil and lubricants	26,838	30,725
Insurance	21,908	13,661
Communications	21,173	27,063
Office supplies	17,547	14,141
Contractual services	16,100	500
Repairs and maintenance	11,454	3,876
Travel	11,417	9,347
Uniforms	8,307	1,042
Bad debts	2,657	40,021
Chlorine	-	2,150
Miscellaneous	37,494	43,699
Total operating expenses	1,170,755	1,167,262
Operating loss	(54,542)	(6,666)
Nonoperating revenues (expenses):		
Operating subsidy from RepMar	-	48,752
Income tax and MISSA penalties and interest	(58,984)	(43,806)
Interest expense	(1,649)	-
Total nonoperating (expenses) revenues, net	(60,633)	4,946
Change in net deficit	(115,175)	(1,720)
Net deficit at beginning of year	(335,751)	(334,031)
Net deficit at end of year	\$ (450,926)	\$ (335,751)

See accompanying notes to financial statements.

MAJURO WATER AND SEWER COMPANY, INC.

Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Cash received from customers	\$ 1,292,485	\$ 1,265,000
Cash payments to suppliers for goods and services	(467,945)	(530,742)
Cash payments to employees for services	(715,434)	(697,339)
Net cash provided by operating activities	109,106	36,919
Cash flows from noncapital financing activities:		
Operating subsidy from RepMar	-	48,752
Interest paid	(60,633)	(43,806)
Net cash (used for) provided by noncapital financing activities	(60,633)	4,946
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(43,303)	(79,115)
Net cash used for capital and related financing activities	(43,303)	(79,115)
Net increase (decrease) in cash	5,170	(37,250)
Cash at beginning of year	43,971	81,221
Cash at end of year	\$ 49,141	\$ 43,971
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (54,542)	\$ (6,666)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	40,272	33,904
Bad debts	2,657	40,021
(Increase) decrease in assets:		
Receivables:		
Utility	(52,583)	138,300
Affiliates	227,339	(34,751)
Other	1,516	855
Inventory	7,547	(45,787)
Prepaid expenses	(10,814)	2,697
Increase (decrease) in liabilities:		
Accounts payable	(11,939)	(16,619)
Payable to affiliates	(33,249)	(83,238)
Other accrued liabilities	(7,098)	8,203
Net cash provided by operating activities	\$ 109,106	\$ 36,919

See accompanying notes to financial statements.

MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

(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 general purpose 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 issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and modified by Statement No. 38, *Certain Financial Statement Disclosures*. These statements 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.

Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

To conform to the requirements of GASB 34, the following changes have been made to MWSC's financial statements:

- Retained earnings have been reclassified into the following net assets 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.
- The statement of cash flows has been presented using the direct method.

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 total 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.

Cash

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, 2004 and 2003, cash was \$49,141 and \$43,971, respectively, and the corresponding bank balances were \$78,092 and \$59,949, respectively, which are maintained in two financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2004 and 2003, bank deposits were fully FDIC insured.

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.

MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

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. 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.

New Accounting Standards

For fiscal year 2005, MWSC will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. MWSC has not evaluated the financial statement impact of the implementation of GASB Statement Nos. 40 and 42.

(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.

MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

(4) Capital Assets

Capital asset activity for the years ended September 30, 2004 and 2003, was as follows:

	2004			
	October 1, <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2004</u>
Vehicles	\$ 137,904	\$ 30,749	\$ -	\$ 168,653
Machinery and equipment	103,387	11,008	-	114,395
Office equipment	94,346	1,546	-	95,892
Buildings and leasehold improvements	<u>54,317</u>	<u>-</u>	<u>-</u>	<u>54,317</u>
	389,954	43,303	-	433,257
Less accumulated depreciation and amortization	<u>(297,005)</u>	<u>(40,272)</u>	<u>-</u>	<u>(337,277)</u>
	<u>\$ 92,949</u>	<u>\$ 3,031</u>	<u>\$ -</u>	<u>\$ 95,980</u>
	2003			
	October 1, <u>2002</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2003</u>
Vehicles	\$ 123,733	\$ 31,104	\$ (16,933)	\$ 137,904
Machinery and equipment	66,772	36,615	-	103,387
Office equipment	82,950	11,396	-	94,346
Buildings and leasehold improvements	<u>54,317</u>	<u>-</u>	<u>-</u>	<u>54,317</u>
	327,772	79,115	(16,933)	389,954
Less accumulated depreciation and amortization	<u>(280,034)</u>	<u>(33,904)</u>	<u>16,933</u>	<u>(297,005)</u>
	<u>\$ 47,738</u>	<u>\$ 45,211</u>	<u>\$ -</u>	<u>\$ 92,949</u>

RepMar and MWSC entered into a Water and Sewer System Franchise Agreement, which transferred the water system infrastructure, and cancelled related loan agreements to RepMar. Management of MWSC and RepMar elected to record this transaction during the year ended September 30, 2002. As such, \$7,826,263 of principal and \$2,024,361 of related accrued interest, less \$8,375,638 of net water system infrastructure, was recorded as a gain from forgiveness of debt, in the year ended September 30, 2002.

(5) Social Security Taxes Payable

At September 30, 2004 and 2003, MWSC was liable for taxes payable to the Marshall Islands Social Security Administration (MISSA) in the amount of \$318,265 and \$403,089, respectively. On February 7, 2003, MWSC and MISSA entered into a promissory note for the repayment of certain delinquent taxes payable in the amount of \$427,774. The terms of the agreement include monthly payments of \$10,000, inclusive of interest at 12% per annum, commencing March 30, 2003.

MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

(5) Social Security Taxes Payable, Continued

Future repayment commitments under this arrangement are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 91,153	\$ 28,847	\$ 120,000
2006	102,713	17,287	120,000
2007	<u>87,417</u>	<u>4,521</u>	<u>91,938</u>
	<u>\$ 281,283</u>	<u>\$ 50,655</u>	<u>\$ 331,938</u>

(6) Withholding Taxes Payable

At September 30, 2004 and 2003, MWSC was liable for withholding taxes payable to RepMar in the amount of \$160,600 and \$175,165, respectively. 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. MWSC has elected to reflect the impact of this transaction within the accompanying financial statements.

Future repayment commitments under this arrangement are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 85,430	\$ 2,793	\$ 88,223

(7) Related Party Transactions

MWSC is wholly-owned by the Marshall Islands Development Authority (MIDA), a component unit of RepMar, and is therefore affiliated with all RepMar-owned and affiliated entities.

MWSC's utility service is provided to RepMar and all RepMar-owned and affiliated entities. Services are extended to these entities at the same terms and conditions provided to third parties.

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

A summary of related party transactions for the years ended September 30, 2004 and 2003, and related receivable and payable balances as of September 30, 2004 and 2003, is as follows:

	2004			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 197,018	\$ 64,817	\$ 130,280	\$ 198,073
Marshall's Energy Company, Inc.	41,026	111,321	-	286,680
Marshall Islands National Telecommunications Authority	20,152	13,773	14,044	-
Marshall Islands Social Security Administration	51,455	247,584	-	318,265
Majuro Resort, Inc.	12,985	1,893	41,650	-
Other	<u>37,900</u>	<u>10,395</u>	<u>19,030</u>	<u>-</u>
	<u>\$ 360,536</u>	<u>\$ 449,783</u>	<u>\$ 205,004</u>	<u>\$ 803,018</u>

MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

(7) Related Party Transactions, Continued

	2003			
	Revenues	Expenses	Receivables	Payables
RepMar	\$ 103,674	\$ 103,217	\$ 237,176	\$ 175,165
Marshalls Energy Company, Inc.	46,643	102,651	36,481	254,672
Marshall Islands National Telecommunications Authority	13,392	15,582	17,994	3,341
Marshall Islands Social Security Administration	992	164,353	49,091	403,089
Majuro Resort, Inc.	39,491	4,009	40,215	-
Other	<u>49,695</u>	<u>11,035</u>	<u>51,386</u>	<u>-</u>
	<u>\$ 253,887</u>	<u>\$ 400,847</u>	<u>\$ 432,343</u>	<u>\$ 836,267</u>

Receivables from and payables to affiliates are uncollateralized, interest free and have no set repayment terms except as disclosed in notes 5 and 6.

(8) 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>	
2005	\$ -
2006	66,667
2007	100,000
2008	100,000
2009 - 2013	500,000
2014 - 2016	<u>233,333</u>
	<u>\$ 1,000,000</u>

(9) Contingency

MWSC has incurred losses from operations of \$54,542 and \$6,666 during the years ended September 30, 2004 and 2003, respectively, and as of those dates, has working capital deficiencies of \$387,351 and \$61,987, respectively, and deficits of \$450,926 and \$335,751, respectively. MWSC received cash subsidies from RepMar during the years ended September 30, 2004 and 2003 of \$0 and \$48,752, 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.