

MAJURO WATER AND SEWER COMPANY, INC.

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

YEAR ENDED SEPTEMBER 30, 2006

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, 2006, and have issued our report thereon dated May 17, 2007. 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

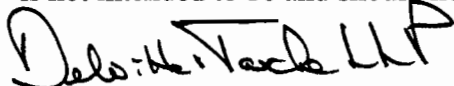
In planning and performing our audit, we considered MWSC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration 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.

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 2006-1 and 2006-2.

We also noted certain matters that we reported to management of MWSC in a separate letter dated May 17, 2007.

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.



May 17, 2007

MAJURO WATER AND SEWER COMPANY, INC.

Schedule of Findings
Year Ended September 30, 2006

Local Noncompliance

Finding No. 2006-1

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 filed and paid income taxes for the fiscal year ended September 30, 2006 in a manner inconsistent with the criteria. We noted that the number of days late ranged from thirteen to one hundred and two. The following is a list of the applicable pay periods:

<u>Period Ended</u>	<u>RepMar Cr #</u>	<u>Amount</u>	<u>MWSC CK#</u>	<u>CR Date/ Date file</u>	<u>Due Date</u>	<u># of Days Late</u>
10/15/05	none	\$ 4,215	none			
11/12/05	none	\$ 4,308	none			
12/10/05	none	\$ 6,092	none			
01/07/06	none	\$ 4,300	none			
02/04/06	none	\$ 4,275	none			
03/18/06	275096	\$ 6,840	4765	10/25/2006	04/06/06	202
04/15/06	275096	\$ 4,176	4765	10/25/2006	05/04/06	174
05/13/06	275096	\$ 4,150	4765	10/25/2006	06/01/06	146
06/10/06	275096	\$ 4,002	4765	10/25/2006	06/30/06	117
07/08/06	275096	\$ 4,023	4765	10/25/2006	07/27/06	90
08/05/06	275096	\$ 4,011	4765	10/25/2006	08/24/06	62
09/16/06	none	\$ 6,769	none	10/16/2006	10/05/06	11
10/14/06	none	\$ 4,232	none	11/3/2006	11/02/06	1

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

Effect: The effect of the above condition is noncompliance with the criteria.

Recommendation: We recommend that MWSC comply with the criteria.

Prior Year Status: The above condition was reported as a finding in the audit of MWSC for the fiscal year ended September 30, 2005.

Finding No. 2006-1, Continued

Auditee Response and Corrective Action Plan:

We acknowledge the MWSC was late on a number of occasions in 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, 2006

Promissory Note

Finding No. 2006-2

Criteria: On January 6, 2006, MWSC entered into a promissory note to repay delinquent taxes of \$164,048. The terms of the agreement include interest at 12% to be repaid over a period of twenty-four months commencing January 30, 2006. Total repayment scheduled for FY2006 was \$61,200.

Condition: At September 30, 2006, the balance outstanding on the note was \$162,236 as only \$1,812 was paid during the year.

Cause: The cause of the above condition appears to be the lack of cash flows.

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 criteria.

Prior Year Status: The above condition was reported as a finding in the audit of MWSC for the fiscal year ended September 30, 2005.

Auditee Response and Corrective Action Plan: We acknowledge the MWSC was not able to remit sufficient funds to RepMar to satisfy the conditions of the promissory note entered into on 30th 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.

The long standing debt owing to MISSA, which was subject to a Promissory Note, was finally paid out by MWSC on 5th February 2007. Payments to MISSA for the current fiscal year will be up to date by June 2007, and the plan is to remain up to date in the future.

An amount was identified in the 2006/2007 RMI budget as fund to be made available from the ROC to be utilized as a subsidy for MWSC. This amount was applied to the lone overdue electricity bills owing.

MAJURO WATER AND SEWER COMPANY, INC.

Schedule of Findings, Continued
Year Ended September 30, 2006

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