

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

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

## INDEPENDENT AUDITORS' REPORT

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

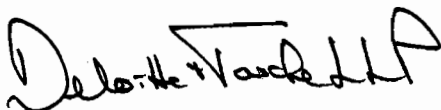
We have audited the accompanying statements of net assets of Majuro Water and Sewer Company, Inc. (MWSC), a component unit of the Republic of the Marshall Islands, as of September 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net deficiency and cash flows for the 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 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, 2006 and 2005, and the changes in its net deficiency 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 May 17, 2007, on our consideration of MWSC's internal control over financial reporting and on our tests of its compliance with certain 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.



May 17, 2007

## MAJURO WATER AND SEWER COMPANY, INC.

### Management's Discussion and Analysis Year Ended September 30, 2006

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, 2006. It is to be read in conjunction with the financial statements, which follow this section.

#### FINANCIAL HIGHLIGHTS

MWSC's net assets decreased by \$163,430 in 2006 compared to a decrease of \$174,370 in 2005. Total revenue remained steady at \$1,069,323 in 2006 compared with \$1,074,747 in 2005. Within operating revenues, billings increased from \$807,567 in 2005 to \$837,485 in 2006. Operating expenses decreased slightly from \$1,283,449 in 2005 to \$1,191,047 in 2006. Most of the decrease was due to a reduction in wages costs of \$71,201. Again, no operating subsidies were received from the General Fund of the Republic of the Marshall Islands (RepMar) for fiscal year ended September 2006.

The Statement of Cash Flows reveals the operations of MWSC has generated net cash inflow of \$85,938 for 2006 compared to a net cash outflow of \$59,400 in 2005. This reflects the tightening of controls over cash management during the year.

#### 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:

	2006	2005	2004
Current Assets	\$ 228,294	\$ 228,621	\$ 329,444
Capital Assets	53,436	75,875	95,980
Total Assets	<u>281,730</u>	<u>304,496</u>	<u>425,424</u>
Current Liabilities	1,070,456	929,792	686,220
Total Liabilities	<u>1,070,456</u>	<u>929,792</u>	<u>876,350</u>
Net Assets:			
Invested in Capital Assets	53,436	75,875	95,980
Unrestricted	(842,162)	(701,171)	(546,906)
Total Net Assets	<u>\$ (788,726)</u>	<u>\$ (625,296)</u>	<u>\$ (450,926)</u>

As indicated above, total assets decreased by \$22,766 or 7% (28% in 2005) from \$304,496 in 2005 to \$281,730 in 2006. Most of this decrease is reflected in the decrease in net receivables of \$30,652 from \$84,127 in 2005 to \$53,475 in 2006. Total liabilities reflect an increase of \$140,664 or 15% from \$929,792 in 2005 to \$1,070,456 in 2006. This is represented by an increase in amounts owing to affiliates (mainly MEC) of \$249,748 or 47% to \$775,220 in 2006 compared to \$525,472 in 2005. There were no non-current liabilities at September 30, 2006.

## MAJURO WATER AND SEWER COMPANY, INC.

### Management's Discussion and Analysis, Continued Year Ended September 30, 2006

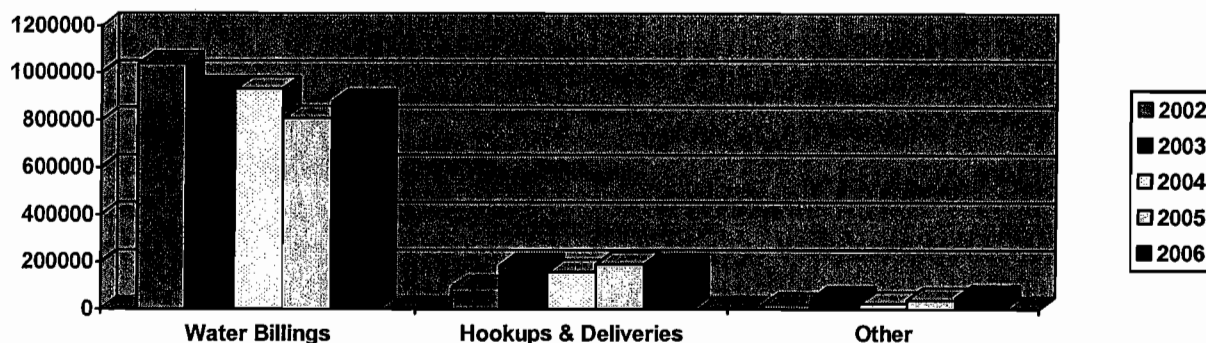
A summary of MWSC's Statement of Revenues, Expenses and Changes in Net Assets is presented below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Revenues:</b>			
Operating revenues	\$ 1,069,323	\$ 1,071,747	\$ 1,113,556
Non-operating revenues	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total revenues</b>	<u>1,069,323</u>	<u>1,071,747</u>	<u>1,113,556</u>
<b>Expenses:</b>			
Operating expenses	1,191,047	1,283,449	1,168,098
Non-operating expenses	<u>41,706</u>	<u>(37,332)</u>	<u>60,633</u>
<b>Total expenses</b>	<u>1,232,753</u>	<u>1,246,117</u>	<u>1,228,731</u>
<b>Change in net deficiency</b>	<b>\$ <u>(163,430)</u></b>	<b>\$ <u>(174,370)</u></b>	<b>\$ <u>(115,175)</u></b>

The Statement of Revenue, Expenses and Changes in Net Assets identifies the various revenue and expense items that impacted on the change in net deficiency. As indicated above, MWSC's total revenues remained steady at \$1,069,323 in 2006 compared with \$1,074,747 in 2005. Utility billings increased by \$29,918 or 4% from \$807,567 in 2005 to \$837,485 in 2006. No subsidy was received from RepMar in 2004.

Management's Discussion and Analysis for the year ended September 30, 2005 is set forth in MWSC's report on the audit of financial statements, which is dated April 15, 2006. That Discussion and Analysis explains the major factors impacting the 2005 financial statements and can be obtained from MWSC's General Manager via the contact information on page 5.

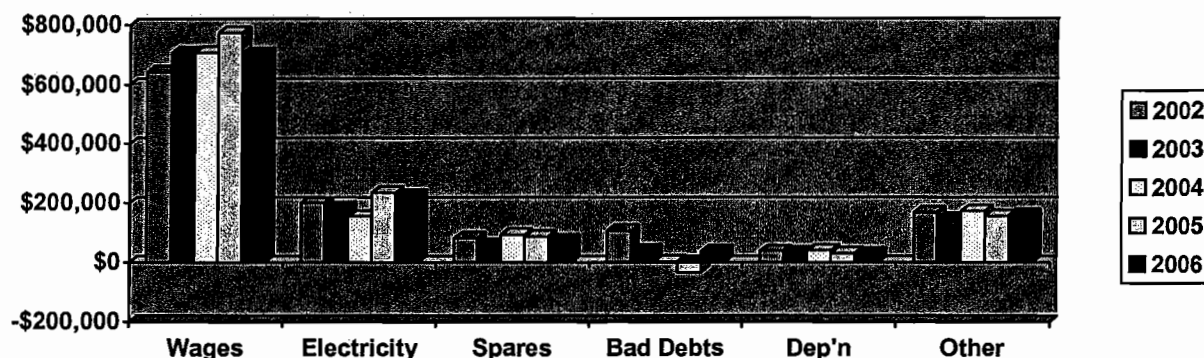
The graph below shows the major components of operating revenues for 2006 compared with 2002, 2003, 2004, 2005 and 2006:



## MAJURO WATER AND SEWER COMPANY, INC.

Management's Discussion and Analysis, Continued  
Year Ended September 30, 2006

Operating expenses decreased by \$92,402 (or 7%) from \$1,283,449 in 2005 to \$1,191,047 in 2006. The operating loss was reduced from \$211,702 in 2005 to \$121,724 in 2006. This was achieved largely through a reduction in the cost of wages and salaries. The graph below shows the major components of operating expenses for 2006 compared with 2002, 2003, 2004 and 2005:



### CAPITAL ASSETS

Net capital assets decreased by \$22,439 in 2006 as a result of the acquisition of miscellaneous office equipment of \$4,997 less total depreciation for the year of \$27,828, and the retirement of old vehicles, machinery and computer equipment with a total cost of \$72,529 and related accumulated depreciation of \$72,921. A summary of MWSC's capital assets is presented below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Motor Vehicles	\$ 130,185	\$ 168,654	\$ 168,653
Machinery and Equipment	103,115	119,077	114,395
Office Equipment	42,873	55,974	95,892
Buildings and Leasehold Improvements	54,317	54,317	54,317
	<u>330,490</u>	<u>398,022</u>	<u>433,257</u>
Less Accumulated Depreciation	<u>(277,054)</u>	<u>(322,147)</u>	<u>(337,277)</u>
	<u>\$ 53,436</u>	<u>\$ 75,875</u>	<u>\$ 795,980</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) Timely payment by RepMar for the cost of actual utility service provided,
- b) Collection of long outstanding utility receivables, and
- c) Continuing improvements in operations.

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

Management's Discussion and Analysis, Continued  
Year Ended September 30, 2006

### **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, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash	\$ 56,011	\$ 16,776
Receivables:		
Utility	1,366,190	1,214,781
Affiliates	97,300	239,790
Other	17,148	20,626
	<u>1,480,638</u>	<u>1,475,197</u>
Less allowance for doubtful accounts	<u>(1,427,163)</u>	<u>(1,391,070)</u>
	<u>53,475</u>	<u>84,127</u>
Inventory	118,808	124,335
Prepaid expenses	-	3,383
	<u>228,294</u>	<u>228,621</u>
Total current assets	228,294	228,621
Capital assets, net (note 4)	<u>53,436</u>	<u>75,875</u>
	<u>\$ 281,730</u>	<u>\$ 304,496</u>

LIABILITIES AND NET ASSETS (DEFICIENCY)

Current liabilities:		
Accounts payable	\$ 11,430	\$ 14,384
Social security taxes payable	97,429	191,237
Withholding taxes payable	162,236	175,201
Payable to affiliates	775,220	525,472
Other accrued liabilities	24,141	23,498
	<u>1,070,456</u>	<u>929,792</u>
Commitment and contingency		
Net assets (deficiency):		
Invested in capital assets	53,436	75,875
Unrestricted	<u>(842,162)</u>	<u>(701,171)</u>
	<u>(788,726)</u>	<u>(625,296)</u>
Total net deficiency	<u>(788,726)</u>	<u>(625,296)</u>
	<u>\$ 281,730</u>	<u>\$ 304,496</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Deficiency  
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Utility billings	\$ 837,485	\$ 807,567
Hook-up and deliveries	182,313	192,126
Other	49,525	72,054
	<u>1,069,323</u>	<u>1,071,747</u>
Operating expenses:		
Salaries, wages and benefits	704,179	775,380
Electricity	225,931	235,265
Spare parts	73,295	86,419
Petroleum, oil and lubricants	43,040	36,191
Depreciation and amortization	27,828	30,402
Insurance	15,214	29,370
Communications	19,210	19,865
Office supplies	12,534	13,231
Contractual services	13,540	7,510
Travel	3,216	3,738
Repairs and maintenance	1,960	2,641
Miscellaneous	51,100	43,437
	<u>1,191,047</u>	<u>1,283,449</u>
Total operating expenses	<u>1,191,047</u>	<u>1,283,449</u>
Operating loss	<u>(121,724)</u>	<u>(211,702)</u>
Nonoperating revenues (expenses):		
Penalties and interest	<u>(41,706)</u>	<u>37,332</u>
Total nonoperating revenues (expenses), net	<u>(41,706)</u>	<u>37,332</u>
Change in net deficiency	(163,430)	(174,370)
Net deficiency at beginning of year	<u>(625,296)</u>	<u>(450,926)</u>
Net deficiency at end of year	<u>\$ (788,726)</u>	<u>\$ (625,296)</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows  
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,099,975	\$ 1,124,378
Cash payments to suppliers for goods and services	(309,858)	(383,224)
Cash payments to employees for services	(704,179)	(800,554)
Net cash provided by (used for) operating activities	<u>85,938</u>	<u>(59,400)</u>
Cash flows from noncapital financing activities:		
Interest and penalties paid	(41,706)	37,332
Net cash used for noncapital financing activities	<u>(41,706)</u>	<u>37,332</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(4,997)	(10,297)
Net cash used for capital and related financing activities	<u>(4,997)</u>	<u>(10,297)</u>
Net change in cash	39,235	(32,365)
Cash at beginning of year	<u>16,776</u>	<u>49,141</u>
Cash at end of year	<u>\$ 56,011</u>	<u>\$ 16,776</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	\$ (121,724)	\$ (211,702)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	27,828	30,402
Bad debts	36,093	(34,267)
Loss from disposal of fixed asset	(392)	-
(Increase) decrease in assets:		
Receivables:		
Utility	(151,409)	132,384
Affiliates	142,490	(34,786)
Other	3,478	(10,700)
Inventory	5,527	6,356
Prepaid expenses	3,383	9,471
Increase (decrease) in liabilities:		
Accounts payable	(2,954)	(10,276)
Payable to affiliates	142,975	88,892
Other accrued liabilities	643	(25,174)
Net cash provided by (used for) operating activities	<u>\$ 85,938</u>	<u>\$ (59,400)</u>

See accompanying notes to financial statements.

## MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements  
September 30, 2006 and 2005

### (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, 2006 and 2005

## (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

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, 2006 and 2005, cash was \$56,011 and \$16,776, respectively, and the corresponding bank balances were \$65,942 and \$42,483, respectively, which are maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006 and 2005, 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, 2006 and 2005

## (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. 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.

### New Accounting Standards

During fiscal year 2006, the MWSC implemented the following pronouncements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when its serviced utility has declined significantly and unexpectedly.
- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.
- GASB Statement No. 47, *Accounting for Termination of Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefits Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

## MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements  
September 30, 2006 and 2005

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards, Continued

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

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MWSC.

In June 2004, GASB issued 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 post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. 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.

### (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, 2006 and 2005, was as follows:

	2006			September 30, 2006
	October 1, 2005	<u>Additions</u>	<u>Retirements</u>	
Vehicles	\$ 168,654	\$ -	\$ (38,469)	\$ 130,185
Machinery and equipment	119,077	-	(15,962)	103,115
Office equipment	55,974	4,997	(18,098)	42,873
Buildings and leasehold improvements	<u>54,317</u>	<u>-</u>	<u>-</u>	<u>54,317</u>
	398,022	4,997	(72,529)	330,490
Less accumulated depreciation and amortization	<u>(322,147)</u>	<u>(27,828)</u>	<u>72,921</u>	<u>(277,054)</u>
	<u>\$ 75,875</u>	<u>\$ (22,831)</u>	<u>\$ 392</u>	<u>\$ 53,436</u>

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

Notes to Financial Statements  
September 30, 2006 and 2005

(4) Capital Assets, Continued

	2005			September 30, <u>2005</u>
	October 1, <u>2004</u>	<u>Additions</u>	<u>Retirements</u>	
Vehicles	\$ 168,653	\$ -	\$ -	\$ 168,654
Machinery and equipment	114,395	4,682	-	119,077
Office equipment	95,892	5,615	(45,532)	55,974
Buildings and leasehold improvements	<u>54,317</u>	<u>-</u>	<u>-</u>	<u>54,317</u>
	433,257	10,297	(45,532)	398,022
Less accumulated depreciation and amortization	<u>(337,277)</u>	<u>(30,402)</u>	<u>45,532</u>	<u>(322,147)</u>
	<u>\$ 95,980</u>	<u>\$ (20,105)</u>	<u>\$ -</u>	<u>\$ 75,875</u>

(5) Social Security Taxes Payable

At September 30, 2006 and 2005, MWSC was liable for taxes payable to the Marshall Islands Social Security Administration (MISSA) in the amount of \$97,429 and \$191,237, 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. As of September 30, 2006, the balance of the note is \$30,800 and interest payable is \$29,039 all of which is reflected as a current liability. Unpaid social security taxes for the quarter ended September 30, 2006 are \$37,590.

(6) Withholding Taxes Payable

At September 30, 2006 and 2005, MWSC was liable for withholding taxes payable to RepMar in the amount of \$162,236 and \$175,201, 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. MWSC did not comply with the repayment terms of this promissory note, which is accordingly reflected as a current liability in the financial statements.

(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 more favorable terms and conditions than those provided to third parties.

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

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

Notes to Financial Statements  
September 30, 2006 and 2005

**(7) Related Party Transactions, Continued**

A summary of related party transactions for the years ended September 30, 2006 and 2005, and related receivable and payable balances as of September 30, 2006 and 2005, is as follows:

	<u>2006</u>			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 63,592	\$ 63,204	\$ 59,063	\$ 162,236
Marshalls Energy Company, Inc.	15,895	225,931	15,418	770,960
Marshall Islands National Telecommunications Authority	9,837	10,337	792	2,270
Marshall Islands Social Security Administration	423	107,782	43	97,429
Majuro Resort, Inc.	37,601	-	9,300	-
Other	<u>62,616</u>	<u>-</u>	<u>12,684</u>	<u>1,990</u>
	<u>\$ 189,964</u>	<u>\$ 407,254</u>	<u>\$ 97,300</u>	<u>\$ 1,034,885</u>
			<u>2005</u>	
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 260,057	\$ 96,974	\$ 169,329	\$ 175,201
Marshalls Energy Company, Inc.	8,301	235,265	5,514	524,646
Marshall Islands National Telecommunications Authority	8,670	10,227	4,788	826
Marshall Islands Social Security Administration	55,055	222,966	775	191,237
Majuro Resort, Inc.	4,221	1,932	45,922	-
Other	<u>42,252</u>	<u>11,310</u>	<u>13,462</u>	<u>-</u>
	<u>\$ 378,556</u>	<u>\$ 578,674</u>	<u>\$ 239,790</u>	<u>\$ 891,910</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>	
2007	\$ 100,000
2008	100,000
2009	100,000
2010	100,000
2011	100,000
2012-2016	<u>433,333</u>
	<u>\$ 1,000,000</u>

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

Notes to Financial Statements  
September 30, 2006 and 2005

(9) Going-Concern

MWSC has incurred losses from operations of \$121,724 and \$211,702 during the years ended September 30, 2006 and 2005, respectively, and as of those dates, has working capital deficiencies of \$842,162 and \$701,171, respectively, and deficits of \$788,726 and \$625,296, 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 for electric usage or to delay payments to RepMar for delinquent employee withholding taxes.