

MAJURO ATOLL WASTE COMPANY
(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

INDEPENDENT AUDITORS' REPORT

Board of Directors
Majuro Atoll Waste Company:

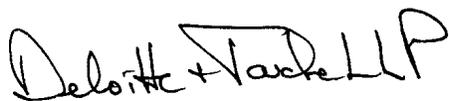
We have audited the accompanying statements of net assets of Majuro Atoll Waste Company (MAWC), a component unit of the Republic of the Marshall Islands, as of September 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of MAWC'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 MAWC'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 MAWC as of September 30, 2011 and 2010, and 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2012, on our consideration of MAWC'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 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.

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 the Governmental Accounting Standards Board. This supplementary information is the responsibility of MAWC'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.



July 13, 2012

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis
Years Ended September 30, 2011 and 2010

Overview

As management of the Majuro Atoll Waste Company (MAWC), we offer the readers of MAWC's financial statements this narrative overview and analysis of the financial activities of MAWC for the fiscal year ending September 30, 2011, with comparative information provided for 2010. We encourage the readers to consider the information presented here in conjunction with additional information that we have furnished in MAWC's financial statements.

MAWC is a state-owned enterprise of the Republic of the Marshall Islands currently under the umbrella of the RMI Environmental Protection Authority. MAWC is subsidized by the RMI-US Compact of Free Association with a basic annual appropriation of \$325,000 in which it is required by law to follow the usage agreement as outlined in its sub-award agreement with the RMI Finance Department. Other sources of funds are provided by grants from government and private institutions, and from MAWC's own revenue from operations.

MAWC is engaged to collect and dispose of solid waste on Majuro Atoll. It is governed by a five-member Board of Directors and operated by 42 employees with the leadership of the General Manager.

Operational and Financial Performance

MAWC's results of operations for 2011 have increased its net operating loss by 15% from \$584,560 in 2010 to \$669,689 in 2011. Factors that contributed to worse results for 2011 are attributed to a decrease in operating revenues by \$97,472 (or 50%) from \$193,709 in 2010 to \$96,237 in 2011 offset by a reduction in operating expenses by \$12,343, representing a decline of 2% from the previous year. Major contributors to the decrease in operating revenues were ceasing operations for three months due to a full dumpsite. Payroll has increased in 2011 due to an urgent need for manpower to separate waste and recyclables plus additional equipment operators for newly purchased equipment.

FINANCIAL ANALYSIS OF MAWC

The Statements of Net Assets (page 5) and the Statements of Revenues, Expenses and Changes in Net Assets (page 6) provide an indication of MAWC's financial condition. MAWC'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 MAWC's Statements of Net Assets is presented below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 67,366	\$ 39,661	\$ 52,957
Capital assets	<u>856,738</u>	<u>589,328</u>	<u>730,243</u>
Total assets	<u>\$ 924,104</u>	<u>\$ 628,989</u>	<u>\$ 783,200</u>
Current liabilities	\$ 106,693	\$ 76,474	\$ 66,500
Noncurrent liabilities	<u>20,512</u>	<u>-</u>	<u>-</u>
	<u>127,205</u>	<u>76,474</u>	<u>66,500</u>
Net assets:			
Invested in capital assets	856,738	589,328	730,243
Unrestricted	<u>(59,839)</u>	<u>(36,813)</u>	<u>(13,543)</u>
Total net assets	<u>796,899</u>	<u>552,515</u>	<u>716,700</u>
Total liabilities and net assets	<u>\$ 924,104</u>	<u>\$ 628,989</u>	<u>\$ 783,200</u>

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued Years Ended September 30, 2011 and 2010

A summary of MAWC's Statements of Revenue, Expenses, and Changes in Net Assets is presented below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues:			
Operating revenues	\$ 96,237	\$ 193,709	\$ 173,710
Non-operating revenues-grants	388,094	420,375	695,000
Capital grants	<u>525,979</u>	<u>-</u>	<u>-</u>
Total revenues	1,010,310	614,084	868,710
Expenses:			
Operating expenses	<u>765,926</u>	<u>778,269</u>	<u>821,473</u>
Change in net assets	\$ <u>244,384</u>	\$ <u>(164,185)</u>	\$ <u>47,237</u>

MAWC's total assets increased by \$295,115 (or 47%) from \$628,989 in 2010 to \$924,104 in 2011. This was primarily due to an increase in capital assets of \$267,410 (or 45%) from \$589,328 in 2010 to \$856,738 in 2011. This increase in capital assets was due to current year depreciation expense of \$141,048 offset by asset additions of \$408,458. Total liabilities increased by \$50,731 (or 66%) from \$76,474 in 2010 to \$127,205 in 2011. This increase was attributable to an increase in payroll related liabilities, including social security taxes payable of \$49,747.

MAWC's total revenues (operating, nonoperating and capital contributions) increased by \$396,226 (or 65%) from \$614,084 in 2010 to \$1,010,310 in 2011. This increase was primarily due to an increase in contributions from RepMar. MAWC received \$914,073 from RepMar to fund the operations of MAWC and to purchase equipment.

MAWC's total expenses decreased by \$12,343 (or 2%) from \$778,269 in 2010 to \$765,926 in 2011. This decrease was primarily attributable to an increase in rental and other waste collection and shipping charges in 2011 offset by an expense associated with the acquisition of trash bins in the amount of \$100,026 in 2010.

Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in MAWC's report on the audit of financial statements, which is dated August 1, 2011. Such Management Discussion and Analysis explains the major factors impacting the 2010 financial statements and can be obtained from MAWC's General Manager via the contact information on page 4.

CAPITAL ASSETS AND LONG-TERM DEBT

At the end of 2011, MAWC has investments in capital assets, net of accumulated depreciation, of \$856,738, an increase of \$267,410 from 2010. As discussed earlier, this increase is the result of current year depreciation expense of \$141,048 offset by capital asset additions of \$408,458. These additions pertain to heavy equipment utilized at the dumpsite. Capital assets are summarized in note 3 to the financial statements. Please refer to this note for additional information concerning capital assets.

On November 9, 2011, MAWC entered into a promissory note agreement for delinquent taxes. Please refer to notes 5 and 6 for additional information concerning long-term debt.

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued
Years Ended September 30, 2011 and 2010

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

Fiscal Year 2012 Budget

MAWC received:

- ❖ \$325,000 operational funding from RepMar that was submitted from the Environmental Protection Authority (EPA) Budget Matrix 2011.
- ❖ \$650,000 capital and infrastructure funding for acquisition of landfill compactor, excavator, loaders and expansion of existing landfill site matched with \$300,000 from DOI-OMIP.

Fiscal Year 2013 Budget

MAWC operational funding for FY 2013 still at \$325,000 plus anticipated \$150,000 revenue and grant from Japan for \$100,000 to improve Majuro Waste Collection System and other grants that aimed to attain the following six outputs/goals:

1. All residential and commercial solid waste in Majuro service areas successfully collected in bins, bags or as bulk materials, and hauled to landfill for segregation, recycling or disposal.
2. All segregated, non-recyclable waste from Majuro service areas effectively disposed of in semi-sanitary landfill.
3. All segregated, recyclable waste from Majuro service areas processed for local reuse or exportation.
4. MAWC's operations and development guided by effective strategic plans and governance of Board of Directors with manager.
5. MAWC staff effectiveness increase through capacity building and training, with board members promoting RMI's success in waste management and benefiting from international networking.

MAWC will continue to develop and implement strategic and annual action plans, build revenues towards sustainable financing and more independent operations as befits a state-owned enterprise.

Contact Us

Questions associated with the above MD&A may be sent by post addressed to Jorelik Tibon, General Manager, P.O. Box 3596, Majuro, MH 96960, or via email to jortibon@yahoo.com.

MAJURO ATOLL WASTE COMPANY

Statements of Net Assets September 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash	\$ 41,502	\$ 1,644
Receivables, net of allowance for doubtful accounts of \$7,286 in 2011 and \$26,065 in 2010	23,864	37,017
Other current assets	<u>2,000</u>	<u>1,000</u>
Total current assets	67,366	39,661
Property and equipment, net	<u>856,738</u>	<u>589,328</u>
	<u>\$ 924,104</u>	<u>\$ 628,989</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable	\$ 52,061	\$ 47,097
Current portion of social security taxes payable	29,235	12,839
Payroll liabilities	24,533	16,034
Other current liabilities	<u>864</u>	<u>504</u>
Total current liabilities	106,693	76,474
Social security taxes payable, net of current portion	<u>20,512</u>	<u>-</u>
Total liabilities	<u>127,205</u>	<u>76,474</u>
Net assets:		
Invested in capital assets	856,738	589,328
Unrestricted	<u>(59,839)</u>	<u>(36,813)</u>
Total net assets	<u>796,899</u>	<u>552,515</u>
	<u>\$ 924,104</u>	<u>\$ 628,989</u>

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Statements of Revenue, Expenses, and Changes in Net Assets Years Ended September 30, 2011 and 2010

	2011	2010
Operating revenues:		
Waste collection	\$ 58,939	\$ 123,971
Recycling income	35,238	56,468
Miscellaneous	2,060	14,914
	96,237	195,353
Less allowance for uncollectible accounts	-	(1,644)
Total operating revenues	96,237	193,709
Expenses:		
Payroll	362,977	296,800
Depreciation	141,048	154,386
Fuel	58,108	57,859
Repairs and maintenance	39,168	37,977
Taxes and licenses	35,143	15,173
Rental and other waste collection	33,243	22,638
Professional and contractual services	23,855	7,704
Recycling	22,605	25,100
Utilities and communication	14,060	19,743
Travel	10,979	-
Office supplies	7,081	8,812
Insurance	6,971	6,207
Advertising	1,038	1,312
Training	350	-
Trash bins	-	100,026
Landfill improvements	-	1,046
Miscellaneous	9,300	23,486
Total operating expenses	765,926	778,269
Operating loss	(669,689)	(584,560)
Nonoperating revenues:		
Contributions from RepMar	388,094	323,375
Contributions from the Government of Japan	-	97,000
Total nonoperating revenues	388,094	420,375
Loss before capital contributions	(281,595)	(164,185)
Capital grants passed through from RepMar	525,979	-
Change in net assets	244,384	(164,185)
Net assets at beginning of year	552,515	716,700
Net assets at end of year	\$ 796,899	\$ 552,515

See accompanying notes to financial statements. 6

MAJURO ATOLL WASTE COMPANY

Statements of Cash Flows Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from customers	\$ 109,390	\$ 191,822
Cash paid to suppliers for goods and services	(257,577)	(303,344)
Cash paid to employees for services	(317,570)	(308,537)
Net cash used in operating activities	(465,757)	(420,059)
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar	388,094	323,375
Grant received from Japan Government	-	97,000
Net cash provided by noncapital financing activities	388,094	420,375
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(408,458)	(13,471)
Capital grants received from RepMar	525,979	-
Net cash provide by capital and related financing activities	117,521	(13,471)
Net change in cash	39,858	(13,155)
Cash at beginning of year	1,644	14,799
Cash at end of year	\$ 41,502	\$ 1,644
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (669,689)	\$ (584,560)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	141,048	154,386
Bad debts	-	1,644
Decrease (increase) in assets:		
Receivables	13,153	(3,531)
Other current assets	(1,000)	2,028
Increase (decrease) in liabilities:		
Accounts payable	4,964	23,867
Social security taxes payable	36,908	(13,203)
Payroll liabilities	8,499	1,466
Other current liabilities	360	(2,156)
Net cash used in operating activities	\$ (465,757)	\$ (420,059)

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2011 and 2010

(1) Organization

Majuro Atoll Waste Company (MAWC) incorporated under the laws of the Republic of the Marshall Islands (RepMar) on January 30, 2007. The principal place of business is on Majuro Atoll. The purpose for which MAWC is organized is to engage in, but not limited to, the collection and disposal of solid waste on Majuro Atoll.

MAWC is governed by a five-member Board of Directors as follows:

- The Secretary of Public Works or Secretary responsible for solid waste.
- The Councilman on the Executive Committee responsible for solid waste management on the Majuro Atoll Local Government.
- One member from a list of two or more nomination by the Marshall Islands Chamber of Commerce.
- One member from a list of two or more nominations by the Marshall Islands Tourism Association.
- One member from a list of two or more nominations by the Marshall Islands Conservation Society.

MAWC'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 MAWC 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 Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. MAWC 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*, as amended by GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, establish standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- Invested in capital assets, net of related debt: capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

- Restricted: Nonexpendable - Net assets subject to externally imposed stipulations that require MAWC to maintain them permanently. As of September 30, 2011 and 2010, MAWC does not have nonexpendable restricted net assets. Expendable - Net assets whose use by MAWC is subject to externally imposed stipulations that can be fulfilled by actions of MAWC pursuant to those stipulations or that expire with the passage of time.
- Restricted: Nonexpendable - Net assets subject to externally imposed stipulations that require MAWC to maintain them permanently. As of September 30, 2011 and 2010, MAWC does not have nonexpendable restricted net assets. Expendable - Net assets whose use by MAWC is subject to externally imposed stipulations that can be fulfilled by actions of MAWC pursuant to those stipulations or that expire with the passage of time.
- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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.

Operating and Non-Operating Revenue and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of MAWC. Non-operating revenues and expenses result from capital and related financing activities as well as certain other non-recurring income and expense items.

Cash

Custodial credit risk is the risk that in the event of a bank failure, MAWC's deposits may not be returned to it. Such deposits are not covered by depository 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. MAWC does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and of cash flows, cash represents cash on hand and cash in bank accounts. As of September 30, 2011 and 2010, the carrying amounts of cash were \$41,502 and \$1,644, respectively, and the corresponding bank balances were \$42,837 and \$3,382, respectively, which were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011 and 2010, bank deposits were fully FDIC insured.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Receivables

Accounts receivable are due from customers both governmental agencies and businesses located in the Majuro Atoll and are interest free and uncollateralized. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb potential losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for losses on accounts receivable charged to expense.

Property and Equipment

MAWC generally capitalizes individual items with a cost that equals or exceeds \$250 and has estimated useful lives of more than one year. Property and equipment is recorded at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of equipment, vehicles, and furniture and fixtures range from 4 to 10 years.

Taxes

Corporate profits are not subject to income tax in the Marshall Islands. Instead, RepMar imposes a gross receipts tax (GRT) of 3% on revenues. MAWC is specifically exempt from this tax.

New Accounting Standards

During fiscal year 2011, MAWC implemented the following pronouncements:

- GASB 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.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MAWC.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MAWC.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MAWC.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MAWC.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MAWC.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MAWC.

Management 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.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

(3) Property, Plant and Equipment

Capital asset activities for the years ended September 30, 2011 and 2010 are as follows:

	Balance at October <u>1, 2010</u>	<u>Additions</u>	<u>Disposal</u>	Balance at September <u>30, 2011</u>
Office equipment	\$ -	\$ 3,474	\$ -	\$ 3,474
Recycling equipment	222,572	-	-	222,572
Truck and heavy equipment	348,634	404,984	-	753,618
Office building	13,471	-	-	13,471
Waste segregation structure	31,200	-	-	31,200
Waste collection equipment	<u>288,528</u>	<u>-</u>	<u>-</u>	<u>288,528</u>
	904,405	408,458	-	1,312,863
Less accumulated depreciation	<u>(315,077)</u>	<u>(141,048)</u>	<u>-</u>	<u>(456,125)</u>
	\$ <u>589,328</u>	\$ <u>267,410</u>	\$ <u>-</u>	\$ <u>856,738</u>
	Balance at October <u>1, 2009</u>	<u>Additions</u>	<u>Disposal</u>	Balance at September <u>30, 2010</u>
Recycling equipment	\$ 222,572	\$ -	\$ -	\$ 222,572
Truck and heavy equipment	348,634	-	-	348,634
Office building	-	13,471	-	13,471
Waste segregation structure	31,200	-	-	31,200
Waste collection equipment	<u>288,528</u>	<u>-</u>	<u>-</u>	<u>288,528</u>
	890,934	13,471	-	904,405
Less accumulated depreciation	<u>(160,691)</u>	<u>(154,386)</u>	<u>-</u>	<u>(315,077)</u>
	\$ <u>730,243</u>	\$ <u>(140,915)</u>	\$ <u>-</u>	\$ <u>589,328</u>

(4) Risk Management

MAWC purchases commercial insurance to cover its potential risks from operations. It is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice since its inception.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2011 and 2010

(5) Social Security Taxes Payable

At September 30, 2011 and 2010, MAWC was liable for taxes, including certain delinquent taxes payable to the Marshall Islands Social Security Administration (MISSA) in the amount of \$49,747 and \$12,839, respectively. On November 9, 2011, MAWC and MISSA entered into a promissory note agreement for delinquent taxes. The terms of this agreement include monthly payments of \$2,500, inclusive of interest at 12% per annum, commencing November 30, 2011.

(6) Changes in Long-Term Liabilities

Changes in long-term liabilities during the year ended September 30, 2011 was as follows:

	Balance at October 1, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September <u>30, 2011</u>	Due Within <u>One Year</u>
Social security taxes payable	\$ <u>12,839</u>	\$ <u>48,666</u>	\$ <u>(11,758)</u>	\$ <u>49,747</u>	\$ <u>29,235</u>

(7) Related Party Transactions

MAWC utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions as of and for the years ended September 30, 2011 and 2010 are as follows:

	2011			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 1,500	\$ 8,499	\$ 1,245	\$ 4,786
Marshall Islands Social Security Administration	-	31,770	-	49,747
College of the Marshall Islands	2,736	-	1,440	-
Marshall Islands National Telecommunications Authority	-	3,976	-	655
RepMar	1,728	55,564	5,537	19,137
Other	<u>7,853</u>	<u>2,820</u>	<u>780</u>	<u>-</u>
	\$ <u>13,817</u>	\$ <u>102,629</u>	\$ <u>9,002</u>	\$ <u>74,325</u>
	2010			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 1,809	\$ 14,746	\$ 501	\$ 1,484
Marshall Islands Social Security Administration	-	24,928	-	12,839
College of the Marshall Islands	12,912	-	1,488	-
Marshall Islands National Telecommunications Authority	-	6,799	-	1,265
RepMar	43,250	8,604	17,956	12,698
Other	<u>10,201</u>	<u>8,468</u>	<u>1,222</u>	<u>60</u>
	\$ <u>68,172</u>	\$ <u>63,545</u>	\$ <u>21,167</u>	\$ <u>28,346</u>

During the years ended September 30, 2011 and 2010, MAWC received operating subsidies from RepMar in the amount of \$388,094 and \$323,375, respectively. In addition, MAWC received subsidies for capital projects from RepMar in the amount of \$525,979 during the year ended September 30, 2011.