

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2008

INDEPENDENT AUDITORS' REPORT

Board of Directors
Majuro Atoll Waste Company:

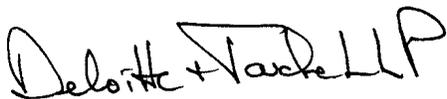
We have audited the accompanying statement of net assets of Majuro Atoll Waste Company (the Company), a component unit of the Republic of the Marshall Islands, as of September 30, 2008, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 the Company'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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2008, and changes in its net assets and its cash flows for the year 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 the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Company'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 September 15, 2010, on our consideration of the Company'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 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.


September 15, 2010

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis
Year Ended September 30, 2008

OVERALL ANALYSIS

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, 2008. 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 commenced operations on February 1, 2007, thus no comparative information is presented other than 2008.

Being a State Owned Enterprise, MAWC's operational funding is provided by the Republic of the Marshall Islands (REPMAR) annually in the amount of \$325,000 from the US Compact of Free Association, Health Sector Grant. MAWC is required by law to follow the usage agreements as outlined in its Sub-Award agreement with the RMI Finance Department. All other funds are provided via grants or by MAWC's revenue generation activities.

The 2008 grant funding included portions of \$325k for operations from the US Compact Health Sector Grant, \$258k in US Compact funds (capital), which purchased three commercial waste collection trucks and 100 commercial waste collection bins, a \$475k grant for recycling equipment from Turkey, \$13k for recycling equipment from NZ Aid and \$27k for waste collection bins from ADB. The 2008 grants totaled approximately \$1.1M. As a result of the funding, net assets increased by \$539K during the year ended September 30, 2008.

FINANCIAL ANALYSIS OF MAWC

The Statement of Net Assets (page 5) and the Statement of Revenue, 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 Statement of Net Assets is presented below:

	<u>2008</u>
Current assets	\$ 266,593
Capital assets	<u>471,482</u>
Total assets	\$ <u>738,075</u>
Current liabilities	\$ <u>68,612</u>
Net assets	
Invested in capital assets	471,482
Unrestricted	<u>197,981</u>
	<u>669,463</u>
Total net assets	\$ <u>738,075</u>

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis Year Ended September 30, 2008

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

	<u>2008</u>
Revenues:	
Operating revenues	\$ 92,300
Nonoperating revenues – grants	913,198
Capital grants	<u>197,460</u>
Total revenues	<u>1,202,958</u>
Expenses:	
Operating expenses	<u>663,607</u>
Total change in net assets	\$ <u><u>539,351</u></u>

CAPITAL ASSETS

Fiscal Year 2008 capital asset additions include:

1. RD-10 Can Compactor
2. RD-10 Can Compactor
3. Bandit Tree Chipper
4. Desco Tire Cutter/de-rim
5. C-75 Landfill cover applicator
6. Peterbuilt front load truck
7. Volvo Roll-off truck
8. International Bin delivery truck
9. 96 Commercial waste dumpsters

For additional information regarding MAWC capital assets, see note 3 to the financial statements.

LONG TERM DEBT

At this time, MAWC has no long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

F/Y 2009 Budget

The F/Y 2009 budget requests were submitted via the Health Sector Grant Ministry of Health Budget Matrix in 2008. The level of funding provided was \$325k from the Health Sector Grant for MAWC operations. All Capital requests for equipment, relocation and infrastructure were not funded.

F/Y 2010 Budget and Economic Outlook

Budgeted expenses have increased from \$325k to over \$500k with the addition of the residential waste collection service on Majuro. Grants and revenue generated by MAWC's activities cover the short fall and allowed for other activities.

MAWC intends on increasing rates for commercial waste collection by 22% in 2011. This increase will raise our anticipated commercial collection revenue to \$125k, an increase of \$22,700 over 2009 revenue.

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis
Year Ended September 30, 2008

MAWC's plans for the immediate future are to construct a new seawall and expand the current site. It is likely that we will be requesting emergency funding from RepMar in the amount of \$850k to start and that we will need an additional \$500k-600k annually to continue landfill operations.

MAWC will continue to develop and improve the waste situation on Majuro with the intent on addressing the same issue on our neighboring islands in the coming years. It is the intent of MAWC to become financially independent within the next five years.

Contact Us

Questions associated with the above MD&A may be sent by post addressed to Roger Cooper, General Manager, P.O. Box 3596, Majuro, MH 96960, or via email to majurowaste@msn.com.

MAJURO ATOLL WASTE COMPANY

Statement of Net Assets September 30, 2008

ASSETS

Current assets:		
Cash	\$	235,928
Receivables, net of allowance for doubtful accounts of \$12,907		26,852
Other current assets		<u>3,813</u>
Total current assets		266,593
Property and equipment, net		<u>471,482</u>
	\$	<u><u>738,075</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$	48,966
Payroll liabilities		18,650
Other current liabilities		<u>996</u>
Total liabilities		<u>68,612</u>
Net assets:		
Invested in capital assets		471,482
Unrestricted		<u>197,981</u>
Total net assets		<u>669,463</u>
	\$	<u><u>738,075</u></u>

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended September 30, 2008

Operating revenues:	
Waste collection	\$ 64,995
Recycling income	40,212
	<hr/>
	105,207
Less allowance for uncollectible accounts	(12,907)
	<hr/>
Total operating revenues	92,300
Expenses:	
Payroll	211,217
Landfill improvements	126,680
Repairs and maintenance	89,134
Depreciation	53,601
Fuel	51,973
Recycling	46,699
Travel	13,932
Training	13,595
Utilities and communication	12,931
Rental and other waste collection	10,068
Office supplies	9,199
Taxes and licenses	6,175
Professional and contractual services	5,000
Insurance	2,257
Advertising	1,662
Miscellaneous	9,484
	<hr/>
Total operating expenses	663,607
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Operating loss	(571,307)
Nonoperating revenues - grants	913,198
Capital grants	197,460
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Change in net assets	539,351
Net assets at beginning of year	130,112
	<hr/>
Net assets at end of year	\$ 669,463
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See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Statement of Cash Flows Year Ended September 30, 2008

Cash flows from operating activities:	
Cash received from customers	\$ 64,535
Cash paid to suppliers for goods and services	(353,017)
Cash paid to employees for services	(199,183)
	<u>(487,665)</u>
Net cash used in operating activities	
Cash flows from noncapital financing activities:	
Grants received	<u>913,198</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(213,726)</u>
	211,807
Net change in cash	
Cash at beginning of year	<u>24,121</u>
Cash at end of year	<u><u>\$ 235,928</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (571,307)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	53,601
Bad debts	12,907
Increase in assets:	
Receivables	(39,729)
Other assets	(942)
Increase (decrease) in liabilities:	
Accounts payable	46,186
Payroll liabilities	12,034
Other current liabilities	(415)
	<u>(487,665)</u>
Net cash used in operating activities	
Noncash financing activities:	
Property and equipment	\$ 197,460
Capital contributions	(197,460)
	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2008

(1) Organization

Majuro Atoll Waste Company (the Company) 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 the Company is organized is to engage in, but not limited to, the collection and disposal of solid waste on Majuro Atoll.

The Company 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.

The Company'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 the Company 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. The Company 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, 2008

(2) Summary of Significant Accounting Policies, Continued

- **Restricted: Nonexpendable** - Net assets subject to externally imposed stipulations that require the Company to maintain them permanently. As of September 30, 2008, the Company does not have nonexpendable restricted net assets. **Expendable** - Net assets whose use by the Company is subject to externally imposed stipulations that can be fulfilled by actions of the Company 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 the Company. 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, the Company'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. The Company 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, 2008, the carrying amount of cash was \$235,928 and the corresponding bank balance was \$259,188, which was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008, bank deposits in the amount of \$100,000 were subject to FDIC insurance. Balances in excess of FDIC insurance are not collateralized. Accordingly, these deposits are exposed to custodial credit risk.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2008

(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

The Company capitalizes individual items with estimated useful lives of more than one year without regard to a capitalization threshold. 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.

New Accounting Standards

During fiscal year 2008, the Company implemented the following pronouncements:

- GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting standards for other postemployment benefit plans by state and local governments.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2008

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 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, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Company.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. 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 the Company.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Company.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Company.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Company.

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, 2008

(3) Property and Equipment

Capital asset activities for the year ended September 30, 2008 are as follows:

	Balance at October <u>1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance at September <u>30, 2008</u>
Recycling equipment	\$ -	\$ 167,118	\$ -	\$ 167,118
Truck and heavy equipment	33,878	90,892	-	124,770
Waste segregation structure	31,200	-	-	31,200
Waste collection equipment	<u>55,061</u>	<u>153,176</u>	<u>-</u>	<u>208,237</u>
	120,139	411,186	-	531,325
Less accumulated depreciation	<u>(6,242)</u>	<u>(53,601)</u>	<u>-</u>	<u>(59,843)</u>
	<u>\$ 113,897</u>	<u>\$ 357,585</u>	<u>\$ -</u>	<u>\$ 471,482</u>

(4) Risk Management

The Company 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 the Company's inception.

(5) Related Party Transactions

The Company 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 year ended September 30, 2008 is as follows:

	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 27,320	\$ 11,352
Marshalls Energy Company, Inc.	4,618	1,254
Marshall Islands National Telecommunications Authority	<u>4,405</u>	<u>623</u>
	<u>\$ 36,343</u>	<u>\$ 13,229</u>