

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

MAJURO ATOLL WASTE COMPANY

Years Ended September 30, 2014 and 2013
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Majuro Atoll Waste Company:

Report on the Financial Statements

We have audited the accompanying financial statements of the Majuro Atoll Waste Company (MAWC), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Majuro Atoll Waste Company as of September 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Going Concern

The accompanying financial statements have been prepared assuming that MAWC will continue as a going concern. As discussed in Note 9 to the financial statements, MAWC's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 9 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

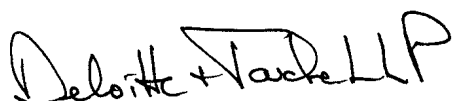
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2015, 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 financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MAWC's internal control over financial reporting and compliance.



July 9, 2015

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

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, 2014, with comparative information provided for 2013. 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 on 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 in Majuro Atoll. It is governed by a five-member Board of Directors, chaired by the Secretary of Ministry of Public Works and managed by 42 employees with the leadership of the General Manager.

Operational and Financial Performance

MAWC's results of operations for 2014 have increased its net operating loss by \$13,995 (or 2%) from \$727,122 in 2013 to \$741,117 in 2014. Factors that contributed to the results for 2014 are attributed to an increase in operating expenses by \$26,331 (or 3%) from \$845,822 in 2013 to \$872,153 in 2014 offset by an increase in the total net operating revenues by \$12,336 (or 10%) from \$118,700 in 2013 to \$131,036 in 2014. Major contributors to the increase in operating revenues were the increase of income from waste collections, equipment rentals and interest offset by the decrease in income from recycled materials. For operating expenses, depreciation increased by \$98,970 (or 48%) due to retirement of side loader equipment, which was offset by a decrease in other operational expenses of \$72,639.

FINANCIAL ANALYSIS OF MAWC

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position provide an indication of MAWC's financial condition. MAWC's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

A summary of MAWC's Statements of Net Position is presented below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 69,225	\$ 74,231	\$ 67,726
Capital assets	<u>824,995</u>	<u>1,126,121</u>	<u>672,778</u>
Total assets	\$ <u>894,220</u>	\$ <u>1,200,352</u>	\$ <u>740,504</u>

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current liabilities	\$ 195,165	\$ 130,838	\$ 90,239
Long-term debt	<u>70,449</u>	<u>120,975</u>	<u>-</u>
Total Liabilities	<u>265,614</u>	<u>251,813</u>	<u>90,239</u>
Net position:			
Net investment in capital assets	824,995	1,126,121	672,778
Restricted	-	-	61,801
Unrestricted	<u>(196,389)</u>	<u>(177,582)</u>	<u>(84,314)</u>
Total net position	<u>628,606</u>	<u>948,539</u>	<u>650,265</u>
Total liabilities and net position	<u>\$ 894,220</u>	<u>\$ 1,200,352</u>	<u>\$ 740,504</u>

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
Operating revenues	\$ 131,036	\$ 118,700	\$ 154,111
Non-operating revenues-grants	325,000	352,769	584,942
Capital grants	<u>104,965</u>	<u>672,627</u>	<u>65,000</u>
Total revenues	561,001	1,144,096	804,053
Expenses:			
Operating expenses	872,153	845,822	950,687
Non-operating expenses	<u>8,781</u>	<u>-</u>	<u>-</u>
Total expenses	<u>880,934</u>	<u>845,822</u>	<u>950,687</u>
Change in net position	<u>\$ (319,933)</u>	<u>\$ 298,274</u>	<u>\$ (146,634)</u>

MAWC's total assets decreased by \$306,132 (or 26%) from \$1,200,352 in 2013 to \$894,220 in 2014. This was due to decrease in net receivables of \$31,607 (or 47%) from \$66,777 in 2013 to \$35,170 in 2014 offset by the increase in cash of \$27,601 (or 506%) from \$5,454 in 2013 to \$33,055 in 2014 and the decrease in capital assets of \$301,126 (or 27%) from \$1,126,121 in 2013 to \$824,995 in 2014. This decrease in capital assets was due to retirement of rear loader equipment and current year depreciation expense of \$303,952 offset by asset additions of \$2,826. Total liabilities increased by \$13,801 (or 5%) from \$251,813 in 2013 to \$265,614 in 2014. This increase was attributed to the increase in payroll related liabilities of \$60,397 (or 71%) from \$85,263 in 2013 to \$145,660 in 2014, offset by the decrease in accounts payable of \$20,157 (or 43%) from \$46,550 in 2013 to \$26,393 in 2014, and decrease in loan payable of \$26,439 (or 22%) from \$120,000 in 2013 to \$93,561 in 2014.

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued Years Ended September 30, 2014 and 2013

MAWC's total revenues decreased by \$583,095 (or 51%) from \$1,144,096 in 2013 to \$561,001 in 2014. This decrease was primarily due to decrease in capital grant of \$567,662 (or 84%) from \$672,627 in 2013 to \$104,965 in 2014 and decrease in non-operating revenue-grants of \$27,769 (or 8%) from \$352,769 in 2013 to \$325,000 in 2014 offset by the increase of operating revenues of \$12,336 (or 10%) from \$118,700 in 2013 to \$131,036 in 2014. MAWC received a capital grant from RepMar to fund import taxes of purchased equipment and reimbursement of repairs and maintenance for the total amount of \$104,965.

MAWC's total expenses increased by \$35,112 (or 4%) from \$845,822 in 2013 to \$880,934 in 2014. This increase was attributed to the increase in current year depreciation expenses and offset by the decrease in other operational expenses.

Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in MAWC's report on the audit of financial statements, which is dated June 5, 2014. Such Management's Discussion and Analysis explains the major factors impacting the FY2013 financial statements and can be obtained from MAWC's General Manager via the contact information on page 6.

CAPITAL ASSETS AND LONG-TERM DEBT

At the end of 2014, MAWC has investments in capital assets, net of accumulated depreciation, of \$824,995 a decrease of \$301,126 (or 27%) from 2013. As discussed earlier, this decrease is the result of current year depreciation expense and retirement of rear loader equipment offset by capital asset additions. These additions pertain to office equipment and solar panel in the interim site located at Rankan Weto, Long Island, Majuro. Capital assets are summarized in note 4 to the financial statements. Please refer to this note for additional information concerning capital assets.

At this time, MAWC has an outstanding loan payable of \$93,561. This long-term debt pertains to bank loan applied to augment MAWC's operating expenses. In addition, MAWC entered into a promissory note agreement for delinquent taxes. At September 30, 2014, social security taxes payable amounted to \$42,680. Refer to note 6 and 7 to the financial statements for additional information concerning MAWC's long-term debt.

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

Fiscal Year 2014 Budget

MAWC received:

- ❖ \$325,000 operational funding from RepMar that was submitted from the Environmental Protection Authority (EPA) Budget Matrix 2014.
- ❖ \$600,000 capital and infrastructure funding that is intended for closure of Batkan-Jable site and opening of new dumpsite at Jenrok area.

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued
Years Ended September 30, 2014 and 2013

Fiscal Year 2015 Budget

MAWC operational funding for FY2015 is at \$325,000 added by \$130,678 from RMI general fund plus the anticipated operating revenue of \$247,339 and grants that aimed to attain the following four 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.

MAWC will continue to develop and implement strategic and annual action plans, build revenues towards sustainable financing and more independent operations as befit 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 jorelik.tibon1@gmail.com.

MAJURO ATOLL WASTE COMPANY

Statements of Net Position
September 30, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash	\$ 33,055	\$ 5,454
Receivables, net	35,170	66,777
Other current assets	<u>1,000</u>	<u>2,000</u>
Total current assets	69,225	74,231
Property and equipment, net	<u>824,995</u>	<u>1,126,121</u>
	<u>\$ 894,220</u>	<u>\$ 1,200,352</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of loan payable	\$ 28,775	\$ 26,439
Social security taxes payable, current portion	37,017	15,895
Accounts payable	25,457	45,686
Withholding taxes payable	43,318	14,291
Payroll liabilities	59,662	27,663
Other current liabilities	<u>936</u>	<u>864</u>
Total current liabilities	<u>195,165</u>	<u>130,838</u>
Loan payable, net of current portion	64,786	93,561
Social security taxes payable, net of current portion	<u>5,663</u>	<u>27,414</u>
	<u>70,449</u>	<u>120,975</u>
Total liabilities	<u>265,614</u>	<u>251,813</u>
Contingency		
Net position:		
Net investment in capital assets	824,995	1,126,121
Unrestricted	<u>(196,389)</u>	<u>(177,582)</u>
Total net position	<u>628,606</u>	<u>948,539</u>
	<u>\$ 894,220</u>	<u>\$ 1,200,352</u>

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Statements of Revenue, Expenses, and Changes in Net Position Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Waste collection	\$ 103,968	\$ 79,626
Recycling income	29,879	55,449
Miscellaneous	3,039	2,324
Total operating revenues	136,886	137,399
Less provision for doubtful accounts	(5,850)	(18,699)
Total net operating revenues	131,036	118,700
Operating expenses:		
Payroll	413,981	419,873
Depreciation	303,952	204,982
Fuel	82,315	83,862
Utilities and communication	14,207	16,780
Repairs and maintenance	13,026	36,179
Office supplies	8,147	8,756
Recycling	7,332	27,875
Insurance	4,746	5,169
Taxes and licenses	4,659	8,514
Professional and contractual services	3,892	8,665
Travel	-	4,222
Miscellaneous	15,896	20,945
Total operating expenses	872,153	845,822
Operating loss	(741,117)	(727,122)
Nonoperating revenues (expenses):		
Contributions from RepMar	325,000	352,769
Interest expense	(8,781)	-
Total nonoperating revenues (expenses), net	316,219	352,769
Loss before capital contributions	(424,898)	(374,353)
Capital contributions:		
RepMar	104,965	557,894
Government of Japan	-	114,733
Change in net position	104,965	672,627
Change in net position	(319,933)	298,274
Net position at beginning of year	948,539	650,265
Net position at end of year	\$ 628,606	\$ 948,539

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers	\$ 138,313	\$ 120,329
Cash payments to suppliers for goods and services	(174,006)	(191,086)
Cash payments to employees for services	(352,955)	(408,180)
Net cash used in operating activities	(388,648)	(478,937)
Cash flows from noncapital financing activities:		
Net borrowings (repayments) under bank loan arrangement	(26,439)	120,000
Interest paid on bank loan	(8,781)	-
Operating subsidy received from RepMar	325,000	328,439
Net cash provided by noncapital financing activities	289,780	448,439
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(2,826)	(658,325)
Capital grants received from RepMar	104,965	557,894
Capital grants received from Government of Japan	24,330	114,733
Net cash provided by capital and related financing activities	126,469	14,302
Net change in cash	27,601	(16,196)
Cash at beginning of year	5,454	21,650
Cash at end of year	\$ 33,055	\$ 5,454
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (741,117)	\$ (727,122)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	303,952	204,982
Provision for bad debts	5,850	18,699
Decrease (increase) in assets:		
Receivables	1,427	(17,070)
Other assets	1,000	-
Increase (decrease) in liabilities:		
Accounts payable	(20,157)	13,982
Social security taxes payable	(629)	15,899
Withholding taxes payable	29,027	12,061
Payroll and other liabilities	31,999	(368)
Net cash used in operating activities	\$ (388,648)	\$ (478,937)

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2014 and 2013

(1) Organization

Majuro Atoll Waste Company (MAWC) was 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.

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 position categories:

- Net investment 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.
- Restricted: Nonexpendable - Net position subject to externally imposed stipulations that require MAWC to maintain such permanently. As of September 30, 2014 and 2013, MAWC does not have nonexpendable restricted net position.
- Expendable - Net position 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. As of September 30, 2014 and 2013, MAWC does not have expendable restricted net position.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

- Unrestricted: Net position that is not subject to externally imposed stipulations. Unrestricted net position 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 position. Proprietary fund operating statements present increases and decreases in net position. 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 position and of cash flows, cash represents cash on hand and cash in bank accounts. As of September 30, 2014 and 2013, the carrying amounts of cash were \$33,055 and \$5,454, respectively, and the corresponding bank balances were \$38,974 and \$125,595, respectively. Of the bank balances, \$32,688 and \$125,595, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits of \$6,286 and \$0, respectively, are maintained in a financial institution not subject to depository insurance. MAWC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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. Bad debts are written-off against the allowance on the specific identification method.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

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.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MAWC has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. MAWC has no items that qualify for reporting in this category.

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.

Reclassifications

Certain balances in the 2013 presentation have been reclassified to conform to the 2014 presentation.

New Accounting Standards

During the year ended September 30, 2014, MAWC implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MAWC.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of MAWC.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of MAWC.

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, 2014 and 2013

(3) Receivables

Receivables at September 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Trade	\$ 41,887	\$ 16,985
Grants	-	24,330
Affiliates	<u>30,990</u>	<u>57,319</u>
	72,877	98,634
Less allowance for doubtful debts	<u>(37,707)</u>	<u>(31,857)</u>
	<u>\$ 35,170</u>	<u>\$ 66,777</u>

(4) Property, Plant and Equipment

Capital asset activities for the years ended September 30, 2014 and 2013 are as follows:

	2014			
	Balance at October <u>1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	Balance at September <u>30, 2014</u>
Office equipment	\$ 7,449	\$ 1,851	\$ -	\$ 9,300
Recycling equipment	226,316	975	-	227,291
Truck and heavy equipment	890,604	-	-	890,604
Office building	13,471	-	-	13,471
Waste segregation structure	31,200	-	-	31,200
Waste collection equipment	<u>804,835</u>	<u>-</u>	<u>-</u>	<u>804,835</u>
	1,973,875	2,826	-	1,976,701
Less accumulated depreciation	<u>(847,754)</u>	<u>(303,952)</u>	<u>-</u>	<u>(1,151,706)</u>
	<u>\$ 1,126,121</u>	<u>\$ (301,126)</u>	<u>\$ -</u>	<u>\$ 824,995</u>

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2014 and 2013

(4) Property, Plant and Equipment, Continued

	2013			
	Balance at October <u>1, 2012</u>	<u>Additions</u>	<u>Disposals</u>	Balance at September <u>30, 2013</u>
Office equipment	\$ 6,161	\$ 1,288	\$ -	\$ 7,449
Recycling equipment	222,572	3,744	-	226,316
Truck and heavy equipment	753,618	136,986	-	890,604
Office building	13,471	-	-	13,471
Waste segregation structure	31,200	-	-	31,200
Waste collection equipment	<u>288,528</u>	<u>516,307</u>	<u>-</u>	<u>804,835</u>
	1,315,550	658,325	-	1,973,875
Less accumulated depreciation	<u>(642,772)</u>	<u>(204,982)</u>	<u>-</u>	<u>(847,754)</u>
	<u>\$ 672,778</u>	<u>\$ 453,343</u>	<u>\$ -</u>	<u>\$ 1,126,121</u>

(5) 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.

(6) Social Security Taxes Payable

At September 30, 2014 and 2013, MAWC was liable for taxes, including certain delinquent taxes, payable to the Marshall Islands Social Security Administration (MISSA) in the amount of \$42,680 and \$43,309, respectively. On January 14, 2014, MAWC and MISSA entered into a promissory note agreement for delinquent taxes. The terms of this agreement include monthly payments of \$2,000, inclusive of interest at 12% per annum, commencing February 10, 2014.

Changes in social security taxes payable during the years ended September 30, 2014 and 2013 were as follows:

	Balance at October 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September <u>30, 2014</u>	Due Within <u>One Year</u>
Social security taxes payable	\$ <u>43,309</u>	\$ <u>65,241</u>	\$ <u>(65,870)</u>	\$ <u>42,680</u>	\$ <u>37,017</u>
	Balance at October 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September <u>30, 2013</u>	Due Within <u>One Year</u>
Social security taxes payable	\$ <u>27,410</u>	\$ <u>73,054</u>	\$ <u>(57,155)</u>	\$ <u>43,309</u>	\$ <u>15,895</u>

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2014 and 2013

(7) Long-Term Debt

On September 26, 2013, MAWC entered into a \$120,000 bank loan for the purpose of funding operational requirements. The loan will mature on September 30, 2017. The loan is collateralized by equipment. Interest is calculated at 8% per annum. Principal and interest are payable in monthly equal installments of \$2,935.

Annual repayment requirements to maturity for principal and interest are as follow:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 28,775	\$ 6,445	\$ 35,220
2016	31,151	4,069	35,220
2017	<u>33,635</u>	<u>1,470</u>	<u>35,105</u>
	<u>\$ 93,561</u>	<u>\$ 11,984</u>	<u>\$ 105,545</u>

Changes in long-term debt during the years ended September 30, 2014 and 2013 were as follows:

	<u>Balance at October 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at September 30, 2014</u>	<u>Due Within One Year</u>
Commercial bank loan	\$ <u>120,000</u>	\$ <u>-</u>	\$ <u>(26,439)</u>	\$ <u>93,561</u>	\$ <u>28,775</u>

	<u>Balance at October 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at September 30, 2013</u>	<u>Due Within One Year</u>
Commercial bank loan	\$ <u>-</u>	\$ <u>120,000</u>	\$ <u>-</u>	\$ <u>120,000</u>	\$ <u>26,439</u>

(8) 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, 2014 and 2013 are as follows:

	<u>2014</u>			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshall's Energy Company, Inc.	\$ 538	\$ 9,827	\$ 658	\$ 3,738
Marshall Islands Social Security Administration	293	2,041	53	42,680
College of the Marshall Islands	5,248	-	2,160	-
Marshall Islands National Telecommunications Authority	25	4,107	25	-
RepMar	20,033	34,519	20,405	93,252
Other	<u>9,299</u>	<u>340</u>	<u>7,689</u>	<u>-</u>
	<u>\$ 35,436</u>	<u>\$ 50,834</u>	<u>\$ 30,990</u>	<u>\$ 139,670</u>

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2014 and 2013

(8) Related Party Transactions, Continued

	2013			
	Revenues	Expenses	Receivables	Payables
Marshalls Energy Company, Inc.	\$ 576	\$ 15,539	\$ 576	\$ 8,847
Marshall Islands Social Security Administration	303	74,030	-	43,309
College of the Marshall Islands	3,936	-	150	-
Marshall Islands National Telecommunications Authority	-	4,725	2,688	457
RepMar	13,966	66,128	48,980	24,022
Other	<u>8,666</u>	<u>1,294</u>	<u>4,925</u>	<u>-</u>
	<u>\$ 27,447</u>	<u>\$ 161,716</u>	<u>\$ 57,319</u>	<u>\$ 76,635</u>

During the years ended September 30, 2014 and 2013, MAWC received operating subsidies from RepMar in the amount of \$325,000 and \$352,769, respectively. In addition, MAWC received subsidies for capital projects from RepMar in the amount of \$104,965 and \$557,894 during the years ended September 30, 2014 and 2013, respectively.

(9) Contingency

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of MAWC as a going concern. MAWC sustained substantial operating losses during the years ended September 30, 2014 and 2013 of \$741,117 and \$727,122, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of \$125,940 at September 30, 2014. Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain MAWC as a going concern. Although RepMar has provided funding in the past, MAWC does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of MAWC's operations is dependent upon the future financial support of RepMar, deferment in payment of certain liabilities, and/or significant improvements in operations.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position at September 30, 2014, is dependent upon continued operations of MAWC, which, in turn, is dependent upon MAWC's ability to provide service to its customers and the success of future operations. Management believes that actions presently being undertaken to revise MAWC's operating requirements, including the generation of positive cash flows from operations, and increasing the customer base, provide the opportunity for MAWC to continue as a going concern. For the year ended September 30, 2015, RepMar appropriated \$325,000 to MAWC for the purpose of funding operations and \$130,678 for capital purposes.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Majuro Atoll Waste Company:

We have audited, in accordance with the 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, the financial statements of the Majuro Atoll Waste Company (MAWC), which comprise the statement of net position as of September 30, 2014, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 9, 2015. Our report included an emphasis-of-matter paragraph regarding a going concern uncertainty.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MAWC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MAWC's internal control. Accordingly, we do not express an opinion on the effectiveness of MAWC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2014-003, which we consider to be a material weakness.

Compliance and Other Matters

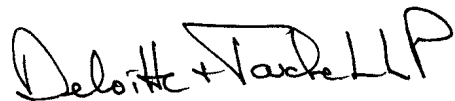
As part of obtaining reasonable assurance about whether MAWC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2014-001 and 2014-002.

MAWC's Responses to Findings

MAWC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. MAWC's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

July 9, 2015

MAJURO ATOLL WASTE COMPANY

Schedule of Findings and Responses Year Ended September 30, 2014

Local Noncompliance

Finding No. 2014-001

Criteria: 49 MIRC Chapter 1, Social Security Act of 1990, Section 131 states that no later than the tenth (10th) day after the end of each quarter, every employer, including every self-employed worker, shall (a) submit to the Administrator a report of the wages and salaries paid by him and the contributions due from him; and (b) pay into the Fund the contributions due.

Condition: MAWC filed and paid employer and employees contributions withheld for the year ended September 30, 2014 in a manner inconsistent with the criteria. Specifically, for the quarter ending June 30, 2014, MISSA contributions were not paid until August 8, 2014.

Cause: The cause of the above condition appears to be lack of policies and procedures to implement and monitor timely filing of returns and payment of contributions in accordance with the Social Security Act.

Effect: The effect of the above condition is noncompliance with the Social Security Act.

Recommendation: We recommend that management establish policies and procedures to comply with the Social Security Act of 1990.

Auditee Response and Corrective Action Plan: We agree with audit recommendation. Policies and procedures are in place; however there were times when fund was not sufficient to cover all costs of operations, including MISSA payments. Management decided on delayed payment in order to continue waste collection operations and payroll. In the future management will try harder to adhere to applicable policies and laws.

MAJURO ATOLL WASTE COMPANY

Schedule of Findings and Responses, Continued Year Ended September 30, 2014

Local Noncompliance

Finding No. 2014-002

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter.

Condition: MAWC filed and paid income taxes withheld for the year ended September 30, 2014 in a manner inconsistent with the criteria. Specifically, withholding taxes for the year ended September 30, 2014 and through January 2015 were not filed and remitted. The last payment made was on June 6, 2013 for PPE May 20, 2013. Payment for PPE 5/21/13 - 6/17/13 was made on April 27, 2015. The first payment for fiscal year 2015 was in February 2015.

Cause: The cause of the above condition is the lack of policies and procedures to monitor timely filing of returns and payment of withheld income taxes.

Effect: The effect of the above condition is noncompliance with RepMar Income Tax Act of 1989, as amended.

Recommendation: We recommend that management establish policies and procedures to comply with the RepMar Income Tax Act of 1989, as amended.

Auditee Response and Corrective Action Plan: We agree with audit recommendation. Policies and procedures are in place; however there were times when fund was not sufficient to cover all costs of operations, including withholding tax payments. Management decided on delayed payment in order to continue waste collection operations and payroll. In the future management will try harder to adhere to applicable policies and laws.

MAJURO ATOLL WASTE COMPANY

Schedule of Findings and Responses, Continued Year Ended September 30, 2014

External Financial Reporting

Finding No. 2014-003

Criteria: Board minutes are a primary means by which regulatory agencies and independent auditors' document the administration of MAWC's operations.

Condition: Not all minutes of meetings held during fiscal year 2014 were available.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to documentation of Board of Director minutes.

Effect: The effect of the above condition is the possibility that directives of the Board are not properly disclosed or recorded in the financial statements.

Recommendation: We recommend that the Board of Directors require that all minutes of meetings be formally documented by the Secretary and approved by the Chairman in a timely manner.

Auditee Response and Corrective Action Plan: We concur with the findings and agreed with the recommendation and we will strive to improve with the condition.

MAJURO ATOLL WASTE COMPANY

Unresolved Prior Year Findings
Year Ended September 30, 2014

The status of other unresolved findings is discussed in the Schedule of Findings and Responses section of this report.