

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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

Years Ended September 30, 2017 and 2016
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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, 2017 and 2016, 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, 2017 and 2016, 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 this matter 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.

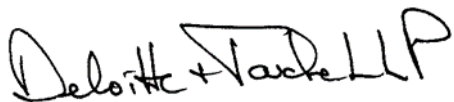
Other Matters

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 7 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 June 26, 2018, 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 solely 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 effectiveness of MAWC's internal control over financial 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.



June 26, 2018

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

Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

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 ended September 30, 2017, with comparative information provided for 2016. We encourage the readers to consider the information presented here in conjunction with additional information that we have furnished in MAWC's financial statements.

Majuro Atoll Waste Company (MAWC) was established by the Marshall Islands Government in January 2007 to manage landfill operations and provide solid waste services to the residents on Majuro Atoll through collection, disposal and recycling of discarded solid materials in a manner that is safe, efficient, environmentally sound and cost-effective. It operates under the Ministry of Public Works (MPW). Its stakeholders include the Office of Environment Planning & Policy Coordination (OEPPC), the RMI Environmental Protection Authority (RMIEPA), the RMI Ministry of Health (MOH), the Marshall Islands Conservation Society (MICS), and Majuro Atoll Local Government (MALGov). MAWC is governed by a five-member Board of Directors, chaired by the Secretary of the MPW and managed by 50 employees under the leadership of the General Manager.

The main purpose is to operate the landfill site located on the southeast section of the island and to provide regular trash, recycling and composting pick-up to most of the island.

Collection Operations

Waste collection does not take place in all areas of the island due in part to the limited resources available to the waste management operation. Collection is free within the service area with the exception of called special pick-up, commercial waste and construction. Trash collection operations run from Monday to Friday including holidays. Approximately 20,000-25,000 residents on Majuro atoll are currently receiving trash pick-up service once a week. Collection teams make reasonable effort to inspect contents and screen out organics/green loads so that only trash, metal, glass and cardboard recyclables are placed in the garbage truck. Additionally, the landfill site is open 24 hours daily and receives multiple loads throughout the day of mixed residential waste, which is free of charge and commercial, which is charged with gate fee according to the category.

In FY2017, MAWC has started to introduce and use the lokwe blue bag specially in the area covering from airport to Laura. Lokwe blue bag is collected daily when it's sited along the roadside. It is being sold in public for a wholesale price of \$80 per box or .20cents each or at the retail price of \$120 per box or .30cents a piece.

Recycling Operations

Single stream recycling takes place and most materials, except for green material, are placed in the garbage truck during the weekly collection. Separation of metals, aluminum cans, tires and glass is done by hand at the landfill. Soon to commence is Container Deposit Legislation (CDL) law which has recently passed yet regulation under this provision is still in the process of finalization.

Green Materials

Green material such as grass clippings, branches, coconut husks and palm fronds are asked to be placed separately curb-side for pick-up. This generally takes place, however, some mixed loads are observed. Green material is placed separate from garbage and is then picked up by a different vehicle following the garbage truck. Green material is also deposited in a different part of the landfill and is used for its composting program.

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2017 and 2016

New Transfer Station located in Laura will soon be the composting area after the land lease agreement procedure and building construction. Waste collected will also be segregated manually before transferring them to the landfill site and it is expected to start its normal operation this FY18.

MAWC is subsidized by the RMI-US Compact of Free Association and required by law to follow the usage agreement as outlined on its sub-award agreement with the RMI Finance Department. MAWC also received subsidy from the government of Marshall Islands starting FY2015 to present. Other sources of funds are provided by grants from government and private institutions and from MAWC's own revenue from operations.

Operational and Financial Performance

MAWC's results of operations for 2017 have decreased its net operating loss by \$105,703 (or 15%) from \$726,952 in 2016 to \$621,249 in 2017, which is contributed to by the decrease in operating expenses of \$107,836 (or 12%) from \$900,493 in 2016 to \$792,657 in 2017 offset by the decrease in total net operating revenues by \$2,133 (or 1%) from \$173,541 in FY2016 to \$171,408 in FY2017. Factors attributed to the decrease in operating revenues were the decrease of waste collection income from gate fees, bin collection services, scraps removal & dumping fees; decrease of recycling income from sale of compost, re-used & recycled items and decrease in miscellaneous income from interest & rental. The decrease of operating expenses were contributed by the decrease in employee's payroll, current year depreciation, fuel & oil, recycling expense, utilities & communication, repairs & maintenance, meetings, truck insurance, advertising and travel offset by the increase of waste collection expense, office supplies, professional & contractual fee, taxes & licenses and other miscellaneous expenses.

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>2017</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 161,859	\$ 284,305	\$ 69,267
Capital assets, net	<u>1,606,972</u>	<u>778,749</u>	<u>795,593</u>
Total assets	\$ <u>1,768,831</u>	\$ <u>1,063,054</u>	\$ <u>864,860</u>
Current and other liabilities	\$ 123,260	\$ 139,490	\$ 171,301
Long-term debt	<u>-</u>	<u>33,635</u>	<u>64,786</u>
Total liabilities	<u>123,260</u>	<u>173,125</u>	<u>236,087</u>
Net position:			
Net investment in capital assets	1,606,972	778,749	795,593
Restricted	-	143,574	-
Unrestricted	<u>38,599</u>	<u>(32,394)</u>	<u>(166,820)</u>
Total net position	<u>1,645,571</u>	<u>889,929</u>	<u>628,773</u>
Total liabilities and net position	\$ <u>1,768,831</u>	\$ <u>1,063,054</u>	\$ <u>864,860</u>

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2017 and 2016

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues:			
Operating revenues	\$ 171,408	\$ 173,541	\$ 157,621
Nonoperating revenues grants	472,018	787,376	509,598
Capital grants	<u>915,331</u>	<u>204,801</u>	<u>201,842</u>
Total revenues	1,558,757	1,165,718	869,061
Expenses:			
Operating expenses	792,657	900,493	862,449
Nonoperating expenses	<u>10,458</u>	<u>4,069</u>	<u>6,445</u>
Total expenses	<u>803,115</u>	<u>904,562</u>	<u>868,894</u>
Change in net position	\$ <u><u>755,642</u></u>	\$ <u><u>261,156</u></u>	\$ <u><u>167</u></u>

Total assets increased by \$705,777 (or 66.39%) from \$1,063,054 in 2016 to \$1,768,831 in 2017. This increase was contributed to by the increase in net receivables of \$18,530 (or 80.92%) from \$22,898 in 2016 to \$41,428 in 2017 and other current assets of \$9,591 (or 639.4%) from \$1,500 in 2016 to \$11,091 in 2017 offset by the decrease in cash of \$74,692 (or 40.59%) from \$184,032 in 2016 to \$109,340 in 2017 and prepayments of \$24,591. MAWC's total capital assets increased by \$828,223 (or 106.4%) from \$778,749 in 2016 to \$1,606,972 in 2017 was primarily due to the increase in non-depreciable assets of \$534,821 (or 145%) from \$368,731 in 2016 to \$903,552 in 2017 and other capital assets of \$293,402 (or 71.56%) from \$410,018 in 2016 to \$703,420 in 2017.

Total liabilities decreased by \$49,865 (or 28.80%) from \$173,125 in 2016 to \$123,260 in 2017. This decrease was attributed to the decrease in current portion of loan payable of \$33,635, payable to affiliates of \$27,054 (or 54.12%) from \$49,986 in 2016 to \$22,932 in 2017 and payroll liabilities of \$3,506 (or 8.58%) from \$40,854 in 2016 to \$37,348 in 2017 offset by the increase in accounts payable of \$4,912 (or 25.56%) from \$19,220 in 2016 to \$24,132 in 2017 and payable to employees of \$9,418 (or 33.11%) from \$28,446 in 2016 to \$37,864 in 2017.

MAWC's total revenues (operating, nonoperating and capital contributions) increased by \$386,650 (or 33.28%) from \$1,161,649 in 2016 to \$1,548,299 in 2017. This increase was attributed to the increases in capital grants from REPMAR for Jenrok landfill detailed engineering design professional services of \$575,832 (or 774%) from \$74,438 in 2016 to \$650,270 in 2017 and from the government of Japan of \$134,698 (or 103%) from \$130,363 in 2016 to \$265,061 in 2017 offset by decreases in operating income from waste collection of \$5,482 (or 4.02%) from \$136,425 in 2016 to \$130,943 in 2017, recycling income of \$4,334 (or 10.5%) from \$41,284 in 2016 to \$36,950 in 2017 and miscellaneous of \$905 (or 20.48%) from \$4,420 in 2016 to \$3,515 in 2017 offset by the decrease in the provision for doubtful accounts of \$8,588. Decrease in nonoperating revenues are attributed to the decrease in contributions from REPMAR of \$163,932 (or 25.78%) from \$635,950 in 2016 to \$472,018 in 2017 and from SPREP of \$151,426.

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2017 and 2016

MAWC's total operating expenses decreased by \$107,836 (or 11.98%) from \$900,493 in 2016 to \$792,657 in 2017. Factors contributing are the decrease in payroll of \$38,270 (or 9.48%) from \$403,669 in 2016 to \$365,399 in 2017, decrease in current year depreciation expense of \$247 (or 0.11%) from \$223,382 in 2016 to \$223,135 in 2017, decrease in fuel & oil of \$4,823 (or 6.43%) from \$75,037 in 2016 to \$70,214 in 2017, decrease in recycling expenses of \$19,556 (or 38.46%) from \$50,852 in 2016 to \$31,296 in 2017, decrease in utilities & communication of \$3,645 (or 25.26%) from \$14,429 in 2016 to \$10,784 in 2017, decrease in repairs & maintenance of \$85,633 (or 89.12%) from \$96,087 in 2016 to \$10,454 in 2017, decrease in meetings & entertainment of \$826 (or 10.88%) from \$7,590 in 2016 to \$6,764 in 2017, decrease in insurance of \$632 (or 15.76%) from \$4,010 in 2016 to \$3,378 in 2017, decrease in advertising of \$238 (or 17.22%) from \$1,382 in 2016 to \$1,144 in 2017 and decrease in travel of \$2,730 (or 71.84%) from \$3,800 in 2016 to \$1,070 in 2017 offset by increases in waste collection expenses of \$39,416 in 2017, office supplies of \$2,764 (or 32.47%) from \$8,512 in 2016 to \$11,276 in 2017, professional and contractual services of \$3,871 (or 86.16%) from \$4,493 in 2016 to \$8,364 in 2017, taxes and licenses of \$517 (or 14.02%) from \$3,688 in 2016 to \$4,205 in 2017 and miscellaneous of \$2,196 (or 61.65%) from \$3,562 in 2016 to \$5,758 in 2017.

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in MAWC's report on the audit of financial statements, which is dated June 16, 2017. Such Management Discussion and Analysis explains the major factors impacting the FY2016 financial statements and can be obtained from MAWC's General Manager via the contact information on page 7.

CAPITAL ASSETS AND LONG-TERM DEBT

At the end of 2017, MAWC has investments in capital assets, net of accumulated depreciation, of \$1,606,972, an increase of \$828,223 (or 106.4%) from \$778,749 in 2016. As mentioned earlier, this increase is the result of increased non-depreciable and other capital assets, net of current year depreciation of \$223,135. These asset additions pertain to Japan government's donation for Metal and Pet Bottles compressors and the fully constructed recycling center. Capital assets are summarized in note 4 to the financial statements. Please refer to this note for additional information concerning capital assets.

As of September 30, 2017, MAWC has no long term liabilities. Changes in long-term debt are set forth in note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

Fiscal Year 2017 Budget

MAWC received:

- ❖ \$319,220 operational funding from RepMar that was submitted from the Environmental Protection Authority (EPA) Budget Matrix 2017 under US Compact of Free Association.
- ❖ \$152,798 additional operating fund from RepMar's general fund.
- ❖ \$650,270 capital and infrastructure funding that is intended for Jenrok landfill detailed engineering design professional services.
- ❖ \$265,061 worth of the two (2) compressor machines: Metal and Pet Bottles compressor from government of Japan.

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2017 and 2016

Fiscal Year 2018 Budget

REPMAR has increased MAWC's operational funding in the general fund by \$151,232 (or 98.98%) from \$152,798 in 2017 to \$304,030 in 2018 and decreased US Compact operational funding by \$138,454 (or 43.37%) from \$319,220 in 2017 to \$180,766 in 2018. MAWC anticipated operating revenue is \$178,760 and an allocation from the ROC Fund of \$460,680 for the Laura Transfer Station. MAWC's management continues 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 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 jorelik.tibon1@gmail.com or call office no. (692)247-2700/2701.

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

Statements of Net Position
September 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 109,340	\$ 184,032
Receivables, net	41,428	22,898
Prepayments	-	24,591
Other current assets	<u>11,091</u>	<u>1,500</u>
Total current assets	<u>161,859</u>	<u>233,021</u>
Noncurrent assets:		
Deposit on acquisition of capital assets	-	51,284
Capital assets:		
Nondepreciable	903,552	368,731
Depreciable capital assets, net of accumulated depreciation	<u>703,420</u>	<u>410,018</u>
Total noncurrent assets	<u>1,606,972</u>	<u>830,033</u>
	<u>\$ 1,768,831</u>	<u>\$ 1,063,054</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Loan payable	\$ -	\$ 33,635
Payable to affiliates	22,932	49,986
Accounts payable	24,132	19,220
Payroll liabilities	37,348	40,854
Payable to employees	37,864	28,446
Other current liabilities	<u>984</u>	<u>984</u>
Total liabilities	<u>123,260</u>	<u>173,125</u>
Contingency		
Net position:		
Net investment in capital assets	1,606,972	778,749
Restricted	-	143,574
Unrestricted	<u>38,599</u>	<u>(32,394)</u>
Total net position	<u>1,645,571</u>	<u>889,929</u>
	<u>\$ 1,768,831</u>	<u>\$ 1,063,054</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues:		
Waste collection	\$ 130,943	\$ 136,425
Recycling income	36,950	41,284
Miscellaneous	3,515	4,420
Total operating revenues	171,408	182,129
Less provision for doubtful accounts	-	(8,588)
Total net operating revenues	171,408	173,541
Operating expenses:		
Payroll	365,399	403,669
Depreciation	223,135	223,382
Fuel	70,214	75,037
Waste collection	39,416	-
Recycling	31,296	50,852
Office supplies	11,276	8,512
Utilities and communication	10,784	14,429
Repairs and maintenance	10,454	96,087
Professional and contractual services	8,364	4,493
Meetings and entertainment	6,764	7,590
Taxes and licenses	4,205	3,688
Insurance	3,378	4,010
Advertising	1,144	1,382
Travel	1,070	3,800
Miscellaneous	5,758	3,562
Total operating expenses	792,657	900,493
Operating loss	(621,249)	(726,952)
Nonoperating revenues (expenses), net:		
Contributions from RepMar	472,018	635,950
Other grants and contributions	-	151,426
Interest expense	(10,458)	(4,069)
Total nonoperating revenues, net	461,560	783,307
Income (loss) before capital contributions	(159,689)	56,355
Capital contributions:		
RepMar	650,270	74,438
Government of Japan	265,061	130,363
Total capital contributions	915,331	204,801
Change in net position	755,642	261,156
Net position at beginning of year	889,929	628,773
Net position at end of year	\$ 1,645,571	\$ 889,929

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY
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Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	\$ 152,878	\$ 166,441
Cash payments to suppliers for goods and services	(210,995)	(272,958)
Cash payments to employees for services	(359,757)	(427,571)
Net cash used in operating activities	(417,874)	(534,088)
Cash flows from noncapital financing activities:		
Net repayments under bank loan arrangement	(33,635)	(31,151)
Interest paid on bank loan	(2,021)	(4,069)
Other interest and penalties paid	(8,437)	-
Operating subsidy received from RepMar	472,018	635,950
Other grants received	-	151,426
Net cash provided by noncapital financing activities	427,925	752,156
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(84,743)	(183,384)
Capital grants received from Government of Japan	-	130,363
Net cash used in capital and related financing activities	(84,743)	(53,021)
Net change in cash	(74,692)	165,047
Cash at beginning of year	184,032	18,985
Cash at end of year	\$ 109,340	\$ 184,032
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (621,249)	\$ (726,952)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	223,135	223,382
Provision for doubtful accounts	-	8,588
Decrease (increase) in assets:		
Receivables	(18,530)	(15,688)
Prepayments	24,591	8,393
Other current assets	(9,591)	-
Increase (decrease) in liabilities:		
Accounts payable	4,912	(4,193)
Payable to affiliates	(26,784)	(17,653)
Payroll and other liabilities	5,642	(9,965)
Net cash used in operating activities	\$ (417,874)	\$ (534,088)
Summary of noncash financing activities:		
Payments made by RepMar for the Jenrok landfill design:		
Capital grant from RepMar	\$ 650,270	\$ 74,438
Acquisition of capital assets	(650,270)	(74,438)
	\$ -	\$ -
Equipment received from Japan Government:		
Capital grant from Japan Government	\$ 265,061	\$ -
Acquisition of capital assets	(265,061)	-
	\$ -	\$ -
Purchased of equipment received during the year:		
Deposit on acquisition of capital assets	\$ 51,284	\$ -
Acquisition of capital assets	(51,284)	-
	\$ -	\$ -

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2017 and 2016

(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 (GAAP) 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 - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34*, establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to these requirements, equity is presented in the following net position categories:

- Net investment in capital assets: 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, 2017 and 2016, 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, 2016, MAWC has expendable net position amounting to \$143,574.
- 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.

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

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources 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. Other grants and contributions revenue for the year ended September 30, 2016, consist of \$151,426 received from the Secretariat of the Pacific Regional Environment Programme, of which \$143,574 remains unexpended at September 30, 2016 and is presented as restricted net position.

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, 2017 and 2016, the carrying amounts of cash were \$109,340 and \$184,032, respectively, and the corresponding bank balances were \$120,718 and \$190,345, respectively. Of the bank balances, \$79,003 and \$155,587, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017 and 2016, bank deposits in the amount of \$79,003 and \$155,587, respectively, were FDIC insured. Bank deposits of \$41,715 and \$34,758, 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. MAWC has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

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
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Prepayments

Certain prepayments to vendors or persons for goods and services reflect costs applicable to future accounting periods and are recorded as prepayments in the accompanying statements of net position.

Property and Equipment

MAWC generally capitalizes individual items with a cost that equals or exceeds \$250 and has estimated useful life 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 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 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.

New Accounting Standards

During the year ended September 30, 2017, MAWC implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

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

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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.

(3) Receivables

Receivables at September 30, 2017 and 2016, consist of the following:

	<u>2017</u>	<u>2016</u>
Trade	\$ 55,064	\$ 42,717
Affiliates	<u>42,490</u>	<u>36,307</u>
	97,554	79,024
Less allowance for doubtful accounts	<u>(56,126)</u>	<u>(56,126)</u>
	\$ <u>41,428</u>	\$ <u>22,898</u>

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

Notes to Financial Statements
September 30, 2017 and 2016

(4) Capital Assets

Capital asset activity for the years ended September 30, 2017 and 2016 is as follows:

	2017			
	Balance at October 1, 2016	Additions	Reclass/ Disposals	Balance at September 30, 2017
Depreciable capital assets:				
Office equipment	\$ 12,005	\$ 2,000	\$ -	\$ 14,005
Recycling equipment	238,664	389,758	-	628,422
Truck and heavy equipment	913,603	-	-	913,603
Office building	13,471	-	-	13,471
Recycle center	-	124,779	-	124,779
Waste segregation structure	47,423	-	-	47,423
Waste collection equipment	<u>810,112</u>	<u>-</u>	<u>-</u>	<u>810,112</u>
	2,035,278	516,537	-	2,551,815
Less accumulated depreciation	<u>(1,625,260)</u>	<u>(223,135)</u>	<u>-</u>	<u>(1,848,395)</u>
	410,018	293,402	-	703,420
Nondepreciable capital assets:				
Construction in progress	<u>368,731</u>	<u>659,600</u>	<u>(124,779)</u>	<u>903,552</u>
	<u>\$ 778,749</u>	<u>\$ 953,002</u>	<u>\$ (124,779)</u>	<u>\$ 1,606,972</u>
	2016			
	Balance at October 1, 2015	Additions	Reclass/ Disposals	Balance at September 30, 2016
Depreciable capital assets:				
Office equipment	\$ 12,005	\$ -	\$ -	\$ 12,005
Recycling equipment	227,291	11,373	-	238,664
Truck and heavy equipment	913,603	-	-	913,603
Office building	13,471	-	-	13,471
Waste segregation structure	47,423	-	-	47,423
Waste collection equipment	<u>804,835</u>	<u>5,277</u>	<u>-</u>	<u>810,112</u>
	2,018,628	16,650	-	2,035,278
Less accumulated depreciation	<u>(1,401,878)</u>	<u>(223,382)</u>	<u>-</u>	<u>(1,625,260)</u>
	616,750	(206,732)	-	410,018
Nondepreciable capital assets:				
Construction in progress	<u>178,843</u>	<u>189,888</u>	<u>-</u>	<u>368,731</u>
	<u>\$ 795,593</u>	<u>\$ (16,844)</u>	<u>\$ -</u>	<u>\$ 778,749</u>

During the year ended September 30, 2016, MAWC received a \$130,363 grant from the Government of Japan for the construction of a recycle center, which commenced operations in December 2016. During the year ended September 30, 2017, MAWC received recycling equipment at a cost of \$265,061 from the Government of Japan.

As of September 30, 2017 and 2016, construction in progress includes certain capitalized costs of \$903,552 and \$253,282, respectively, associated with the new Jenrok landfill. Construction of the new landfill is currently on hold due to insufficient funding. Management believes that continuation of the landfill construction is dependent upon funding being made available by RepMar.

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

Notes to Financial Statements
September 30, 2017 and 2016

(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 during the past three years.

(6) Social Security Taxes Payable

In 2014, MAWC entered into a promissory note agreement with the Marshall Islands Social Security Administration (MISSA) for certain delinquent taxes payable in the initial amount of \$39,426. The terms of this agreement included monthly payments of \$2,000, inclusive of interest at 12% per annum, commencing February 10, 2014. Obligations under this agreement were settled in full during the year ended September 30, 2016.

Changes in delinquent social security taxes payable during the year ended September 30, 2016 were as follows:

Balance at October 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, <u>2016</u>	Due Within <u>One Year</u>
\$ <u>5,663</u>	\$ _____	\$ <u>(5,663)</u>	\$ _____	\$ _____

(7) Long-Term Debt

In 2013, MAWC entered into a \$120,000 bank loan for the purpose of funding operational requirements with interest at 8% per annum and collateralized by equipment. This loan was paid in full during the year ended September 30, 2017.

Changes in long-term debt during the years ended September 30, 2017 and 2016 were as follows:

	Balance at October 1, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, <u>2017</u>	Due Within <u>One Year</u>
Commercial bank loan	\$ <u>33,635</u>	\$ _____	\$ <u>(33,635)</u>	\$ _____	\$ _____
	Balance at October 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, <u>2016</u>	Due Within <u>One Year</u>
Commercial bank loan	\$ <u>64,786</u>	\$ _____	\$ <u>(31,151)</u>	\$ <u>33,635</u>	\$ <u>33,635</u>

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

Notes to Financial Statements
September 30, 2017 and 2016

(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, 2017 and 2016 are as follows:

	2017			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshall's Energy Company, Inc.	\$ 11,321	\$ 7,451	\$ 4,530	\$ 476
Marshall Islands Social Security Administration	288	37,316	48	19,312
College of the Marshall Islands	4,691	-	4,110	-
Marshall Islands National Telecommunications Authority	5	2,167	54	967
RepMar	20,708	4,887	27,687	2,177
Other	<u>16,052</u>	<u>1,531</u>	<u>6,061</u>	<u>-</u>
	<u>\$ 53,065</u>	<u>\$ 53,352</u>	<u>\$ 42,490</u>	<u>\$ 22,932</u>
	2016			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshall's Energy Company, Inc.	\$ 2,449	\$ 8,295	\$ 959	\$ 1,449
Marshall Islands Social Security Administration	288	35,789	48	17,358
College of the Marshall Islands	5,131	-	1,195	-
Marshall Islands National Telecommunications Authority	25	5,471	99	264
RepMar	6,200	3,698	20,956	30,915
Other	<u>20,767</u>	<u>1,025</u>	<u>13,050</u>	<u>-</u>
	<u>\$ 34,860</u>	<u>\$ 54,278</u>	<u>\$ 36,307</u>	<u>\$ 49,986</u>

MAWC received operating subsidies from RepMar during the years ended September 30, 2017 and 2016, as follows:

	2017	2016
Compact Environment Sector Grant	\$ 319,220	\$ 320,760
General Fund	<u>152,798</u>	<u>315,190</u>
	<u>\$ 472,018</u>	<u>\$ 635,950</u>

During the years ended September 30, 2017 and 2016, RepMar made direct payments to a vendor in the amount of \$650,270 and \$74,438, respectively, for the Jenrok landfill design on behalf of MAWC. These payments were made by RepMar under the Compact Public Infrastructure Sector Grant.

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

Notes to Financial Statements
September 30, 2017 and 2016

(9) Contingencies

Going Concern

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, 2017 and 2016 of \$621,249 and \$726,952, respectively. 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. Further, the construction of the Jenrok landfill has been delayed due to a lack of funds and is awaiting infrastructure funding from RepMar to complete construction. Management believes that the infrastructure funding from RepMar is more likely than not to be made available. If RepMar does not complete the related construction, the carrying values of the related assets would be materially impacted.

In view of these matters, realization of the related assets in the accompanying statement of net position at September 30, 2017, 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 ending September 30, 2018, RepMar and the Republic of China (ROC) appropriated \$304,030 and \$460,680, respectively, to MAWC for the purpose of funding operations and Compact Public Infrastructure Sector from RepMar of \$180,766 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), a component unit of the Republic of the Marshall Islands, which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses, and change 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 June 26, 2018. 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.

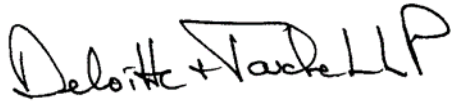
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

June 26, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Majuro Atoll Waste Company:

Report on Compliance for Each Major Federal Program

We have audited Majuro Atoll Waste Company's (MAWC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on MAWC's major federal program for the year ended September 30, 2017. MAWC's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for MAWC's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MAWC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of MAWC's compliance.

Opinion on the Major Federal Program

In our opinion, MAWC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of MAWC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MAWC's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MAWC's internal control over compliance.

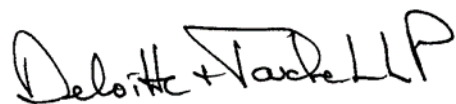
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of MAWC as of and for the year ended September 30, 2017, and have issued our report thereon dated June 26, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



June 26, 2018

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

Program Title	Pass-Through Entity Identifying Number	Expenditures FY17
<u>U.S. Department of the Interior CFDA# 15.875:</u>		
Pass-Through the Republic of the Marshall Islands	980634153	
Economic, Social and Political Development of the Territories:		
Compact of Free Association Program, As Amended, Sector Grants:		
Section 211(a)(5) Environment		\$ 319,220
Section 211(d)(1) Public Infrastructure Development		<u>650,270</u>
		<u>\$ 969,490</u>

The above expenditures reconcile to the underlying financial statements as follows:

Environment (included within operating expenses of \$792,657)	\$ 319,220
Capital asset acquisitions	<u>650,270</u>
	<u>\$ 969,490</u>

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting.

MAWC does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

1. Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- | | |
|--|---------------|
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|--|---------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)? | No |

9. Identification of major federal programs:

CFDA

<u>Number</u>	<u>Name of Federal Program</u>
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15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, as Amended, Sector Grants
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- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee? | No |

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.



MAJURO ATOLL WASTE COMPANY

Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2017

Questioned Costs:

There are no questioned costs reported as of September 30, 2017.

Summary Schedule of Prior Audit Findings

<u>Finding Number</u>	<u>Finding</u>	<u>Status as of September 30, 2017</u>
2016-001	Financial Reporting	Corrective action was taken.
2016-002	Local noncompliance	Corrective action was taken.
2016-003	Procurement code	Corrective action was taken.