

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

MAJURO ATOLL WASTE COMPANY

Years Ended September 30, 2012 and 2011
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Majuro Atoll Waste Company:

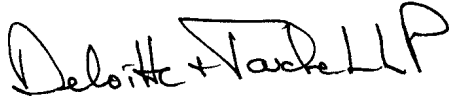
We have audited the accompanying statements of net assets of Majuro Atoll Waste Company (MAWC), a component unit of the Republic of the Marshall Islands, as of September 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of MAWC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MAWC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MAWC as of September 30, 2012 and 2011, and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2013, on our consideration of MAWC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

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

June 6, 2013

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued Years Ended September 30, 2012 and 2011

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, 2012, with comparative information provided for 2011. 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 revenues from operations.

MAWC is engaged to collect and dispose solid waste in Majuro Atoll. It is governed by a five-member Board of Directors and managed by 47 employees with the leadership of the General Manager.

Operational and Financial Performance

MAWC's results of operations for 2012 have increased its net operating loss by 19% from \$669,689 in 2011 to \$796,576 in 2012. Factors that contributed to worse results for 2012 are attributed to an increase in operating expenses by \$184,761 (or 24%) from \$765,926 in 2011 to \$950,687 in 2012 offset by an increase in operating revenues by \$57,874 (or 60%) from \$96,237 in 2011 to \$154,111 in 2012. Major contributors to the increase in operating revenues were the increase in rental income and sales of recycled materials and distribution of 1,200 trash bins donated from Japan throughout the island, which increased collection and income during the year. For operating expenses, payroll has increased in 2012 by \$55,264 (or 15%) due to an urgent need of manpower to separate waste and recyclables at the dumpsite and extended employees' working hours in responding to the breakout of Dengue fever virus pandemic. Operating expense such as trash bin, fuel, recycling, repairs and maintenance has increased accordingly.

FINANCIAL ANALYSIS OF MAWC

The Statements of Net Assets (page 6) and the Statements of Revenues, Expenses and Changes in Net Assets (page 7) provide an indication of MAWC's financial condition. MAWC's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 67,226	\$ 67,366	\$ 39,661
Capital assets	<u>672,778</u>	<u>856,738</u>	<u>589,328</u>
Total assets	\$ <u>740,504</u>	\$ <u>924,104</u>	\$ <u>628,989</u>
Current liabilities	\$ 90,239	\$ 106,693	\$ 76,474
Noncurrent liabilities	<u>-</u>	<u>20,512</u>	<u>-</u>
Total liabilities	<u>90,239</u>	<u>127,205</u>	<u>76,474</u>

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net assets:			
Invested in capital assets	672,778	856,738	589,328
Restricted	61,801	-	-
Unrestricted	<u>(84,314)</u>	<u>(59,839)</u>	<u>(36,813)</u>
Total net assets	<u>650,265</u>	<u>796,899</u>	<u>552,515</u>
Total liabilities and net assets	\$ <u>740,504</u>	\$ <u>924,104</u>	\$ <u>628,989</u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues:			
Operating revenues	\$ 154,111	\$ 96,237	\$ 193,709
Non-operating revenues-grants	584,942	388,094	420,375
Capital grants	<u>65,000</u>	<u>525,979</u>	<u>-</u>
Total revenues	804,053	1,010,310	614,084
Expenses:			
Operating expenses	<u>950,687</u>	<u>765,926</u>	<u>778,269</u>
Change in net assets	\$ <u>(146,634)</u>	\$ <u>244,384</u>	\$ <u>(164,185)</u>

MAWC's total assets decreased by \$183,600 (or 20%) from \$924,104 in 2011 to \$740,504 in 2012. This was primarily due to a decrease in capital assets of \$183,960 (or 21%) from \$856,738 in 2011 to \$672,778 in 2012. This decrease in capital assets was due to current year depreciation expense of \$186,647 offset by asset additions of \$2,687. For additional information regarding capital assets, please refer to Note 3 to the accompanying financial statements. Total liabilities decreased by \$36,996 (or 29%) from \$127,205 in 2011 to \$90,239 in 2012. This decrease was attributable to a decrease in payroll related liabilities.

MAWC's total revenues (operating, nonoperating and capital contributions) decreased by \$206,257 (or 20%) from \$1,010,310 in 2011 to \$804,053 in 2012. This decrease was primarily due to a decrease in capital contributions from RepMar. MAWC received \$649,942 from RepMar to fund the operations of MAWC and purchase equipment.

MAWC's total expenses increased by \$184,761 (or 24%) from \$765,926 in 2011 to \$950,687 in 2012. This increase was primarily attributable to an increase in payroll, depreciation, trash bin and fuel in 2012. MAWC received a grant from the Government of Japan of \$116,531 in 2012 to fund the purchase and distribution of trash bins in the amount of \$113,032.

Management's Discussion and Analysis for the year ended September 30, 2011 is set forth in MAWC's report on the audit of financial statements, which is dated July 13, 2012. Such Management Discussion and Analysis explains the major factors impacting the 2011 financial statements and can be obtained from MAWC's General Manager via the contact information on page 5.

CAPITAL ASSETS AND LONG-TERM DEBT

At the end of 2012, MAWC has investments in capital assets, net of accumulated depreciation, of \$672,778, a decrease of \$183,960 from 2011. As discussed earlier, this decrease is the result of current year depreciation expense of \$186,647 offset by capital asset additions of \$2,687. These additions

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued Years Ended September 30, 2012 and 2011

pertain to office equipment. Capital assets are summarized in note 3 to the financial statements. Please refer to this note for additional information concerning capital assets.

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

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

Fiscal Year 2013 Budget

MAWC received:

- ❖ \$325,000 operational funding from RepMar that was submitted from the Environmental Protection Authority (EPA) Budget Matrix 2012.
- ❖ \$600,000 capital and infrastructure funding for completion of seawall and opening of new dumpsite.
- ❖ Anticipated \$164,485 operating revenue.
- ❖ \$112,720 grant from Japan Grant Assistance for Grassroots Projects (GAGP) to purchase rear loader garbage truck.

Fiscal Year 2014 Budget

MAWC operational funding for FY 2014 still at \$325,000 plus anticipated \$165,000 revenue and grant from Japan Grant Assistance for Grassroots Projects (GAGP) for \$100,000 to improve Majuro Waste Collection System and other grants that aimed to attain the following six outputs/goals:

1. All residential and commercial solid waste in Majuro service areas successfully collected in bins, bags or as bulk materials, and hauled to landfill for segregation, recycling or disposal.
2. All segregated, non-recyclable waste from Majuro service areas effectively disposed of in semi-sanitary landfill.
3. All segregated, recyclable waste from Majuro service areas processed for local reuse or exportation.
4. MAWC's operations and development guided by effective strategic plans and governance of Board of Directors with manager.
5. MAWC staff effectiveness increase through capacity building and training, with Board members promoting RMI's success in waste management and benefiting from international networking.
6. New technologies, opportunities and partnerships researched, developed and initiated to address additional priority waste disposal, health, pollution and revenue issues including hazardous, medical and global pollutant wastes, as well as import substitution, value-adding recycling, control of illegal dumping, vessel waste, and expansion of waste management service partnerships with neighboring atolls and communities (including Laura transfer station).

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

Contact Us

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

MAJURO ATOLL WASTE COMPANY

Statements of Net Assets September 30, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash	\$ 21,650	\$ 41,502
Receivables, net of allowance for doubtful accounts of \$13,158 in 2012 and \$7,286 in 2011	44,076	23,864
Other current assets	<u>2,000</u>	<u>2,000</u>
Total current assets	67,726	67,366
Property and equipment, net	<u>672,778</u>	<u>856,738</u>
	<u>\$ 740,504</u>	<u>\$ 924,104</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 31,704	\$ 52,061
Current portion of social security taxes payable	27,410	29,235
Payroll liabilities	30,261	24,533
Other current liabilities	<u>864</u>	<u>864</u>
Total current liabilities	90,239	106,693
Social security taxes payable, net of current portion	<u>-</u>	<u>20,512</u>
Total liabilities	<u>90,239</u>	<u>127,205</u>
Contingency		
Net assets:		
Invested in capital assets	672,778	856,738
Restricted	61,801	-
Unrestricted	<u>(84,314)</u>	<u>(59,839)</u>
Total net assets	<u>650,265</u>	<u>796,899</u>
	<u>\$ 740,504</u>	<u>\$ 924,104</u>

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Statements of Revenue, Expenses, and Changes in Net Assets Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Waste collection	\$ 76,331	\$ 58,939
Recycling income	63,139	35,238
Miscellaneous	14,641	2,060
Total operating revenues	154,111	96,237
Expenses:		
Payroll	418,241	362,977
Depreciation	186,647	141,048
Trash bins	113,032	-
Fuel	83,265	58,108
Repairs and maintenance	45,269	39,168
Recycling	41,988	22,605
Utilities and communication	14,492	14,060
Taxes and licenses	14,389	35,143
Office supplies	7,965	7,081
Insurance	6,397	6,971
Professional and contractual services	5,699	23,855
Travel	2,162	10,979
Advertising	845	1,038
Rental and other waste collection	-	33,243
Training	-	350
Miscellaneous	10,296	9,300
Total operating expenses	950,687	765,926
Operating loss	(796,576)	(669,689)
Nonoperating revenues:		
Contributions from RepMar	533,411	388,094
Contributions from the Government of Japan	116,531	-
Total nonoperating revenues	649,942	388,094
Loss before capital contributions	(146,634)	(281,595)
Capital grants passed through from RepMar	-	525,979
Change in net assets	(146,634)	244,384
Net assets at beginning of year	796,899	552,515
Net assets at end of year	\$ 650,265	\$ 796,899

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Statements of Cash Flows Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	\$ 133,899	\$ 109,390
Cash paid to suppliers for goods and services	(366,156)	(257,577)
Cash paid to employees for services	(434,850)	(317,570)
Net cash used in operating activities	(667,107)	(465,757)
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar	533,411	388,094
Grant received from Japan Government	116,531	-
Net cash provided by noncapital financing activities	649,942	388,094
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(2,687)	(408,458)
Capital grants received from RepMar	-	525,979
Net cash provide by capital and related financing activities	(2,687)	117,521
Net change in cash	(19,852)	39,858
Cash at beginning of year	41,502	1,644
Cash at end of year	\$ 21,650	\$ 41,502
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (796,576)	\$ (669,689)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	186,647	141,048
Decrease (increase) in assets:		
Receivables	(20,212)	13,153
Other current assets	-	(1,000)
Increase (decrease) in liabilities:		
Accounts payable	(20,357)	4,964
Social security taxes payable	(22,337)	36,908
Payroll liabilities	5,728	8,499
Other current liabilities	-	360
Net cash used in operating activities	\$ (667,107)	\$ (465,757)

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2012 and 2011

(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. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. MAWC has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, establish standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

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

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

- Restricted: Nonexpendable - Net assets subject to externally imposed stipulations that require MAWC to maintain them permanently. As of September 30, 2012 and 2011, MAWC does not have nonexpendable restricted net assets. Expendable - Net assets whose use by MAWC is subject to externally imposed stipulations that can be fulfilled by actions of MAWC pursuant to those stipulations or that expire with the passage of time. Restricted expendable net assets are comprised of the following:

	<u>2012</u>	<u>2011</u>
Compact of Free Association, Section 211(d) Infrastructure Sector – Solid Waste Disposal Project	\$ <u>61,801</u>	\$ <u>-</u>

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Operating and Non-Operating Revenue and Expenses

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

Cash

Custodial credit risk is the risk that in the event of a bank failure, MAWC's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MAWC does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and of cash flows, cash represents cash on hand and cash in bank accounts. As of September 30, 2012 and 2011, the carrying amounts of cash were \$21,650 and \$41,502, respectively, and the corresponding bank balances were \$32,807 and \$42,837, respectively, which were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, bank deposits were fully FDIC insured.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Receivables

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

Property and Equipment

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

Taxes

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

New Accounting Standards

During the year ended September 30, 2012, MAWC implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

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

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

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

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of MAWC.

In April 2012, GASB issued 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 provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of MAWC.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and 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 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of MAWC.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Property, Plant and Equipment

Capital asset activities for the years ended September 30, 2012 and 2011 are as follows:

	Balance at October <u>1, 2011</u>	Additions	Disposal	Balance at September <u>30, 2012</u>
Office equipment	\$ 3,474	\$ 2,687	\$ -	\$ 6,161
Recycling equipment	222,572	-	-	222,572
Truck and heavy equipment	753,618	-	-	753,618
Office building	13,471	-	-	13,471
Waste segregation structure	31,200	-	-	31,200
Waste collection equipment	<u>288,528</u>	<u>-</u>	<u>-</u>	<u>288,528</u>
	1,312,863	2,687	-	1,315,550
Less accumulated depreciation	<u>(456,125)</u>	<u>(186,647)</u>	<u>-</u>	<u>(642,772)</u>
	\$ <u>856,738</u>	\$ <u>(183,960)</u>	\$ <u>-</u>	\$ <u>672,778</u>
	Balance at October <u>1, 2010</u>	Additions	Disposal	Balance at September <u>30, 2011</u>
Office equipment	\$ -	\$ 3,474	\$ -	\$ 3,474
Recycling equipment	222,572	-	-	222,572
Truck and heavy equipment	348,634	404,984	-	753,618
Office building	13,471	-	-	13,471
Waste segregation structure	31,200	-	-	31,200
Waste collection equipment	<u>288,528</u>	<u>-</u>	<u>-</u>	<u>288,528</u>
	904,405	408,458	-	1,312,863
Less accumulated depreciation	<u>(315,077)</u>	<u>(141,048)</u>	<u>-</u>	<u>(456,125)</u>
	\$ <u>589,328</u>	\$ <u>267,410</u>	\$ <u>-</u>	\$ <u>856,738</u>

(4) Risk Management

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

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2012 and 2011

(5) Social Security Taxes Payable

At September 30, 2012 and 2011, MAWC was liable for taxes, including certain delinquent taxes payable to the Marshall Islands Social Security Administration (MISSA) in the amount of \$27,410 and \$49,747, respectively. On November 9, 2011, MAWC and MISSA entered into a promissory note agreement for delinquent taxes. The terms of this agreement include monthly payments of \$2,500, inclusive of interest at 12% per annum, commencing November 30, 2011.

(6) Changes in Long-Term Liabilities

Changes in long-term liabilities during the years ended September 30, 2012 and 2011 was as follows:

	Balance at October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September <u>30, 2012</u>	Due Within <u>One Year</u>
Social security taxes payable	\$ <u>49,747</u>	\$ <u>-</u>	\$ <u>(22,337)</u>	\$ <u>27,410</u>	\$ <u>27,410</u>

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

(7) Related Party Transactions

MAWC utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions as of and for the years ended September 30, 2012 and 2011 are as follows:

	<u>2012</u>			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshall's Energy Company, Inc.	\$ 816	\$ 9,176	\$ 1,809	\$ 3,852
Marshall Islands Social Security Administration	-	81,140	-	44,865
College of the Marshall Islands	5,322	-	3,048	-
Marshall Islands National Telecommunications Authority	-	2,764	-	437
RepMar	764	55,027	1,220	4,845
Other	<u>21,688</u>	<u>773</u>	<u>9,525</u>	<u>951</u>
	\$ <u>28,590</u>	\$ <u>148,880</u>	\$ <u>15,602</u>	\$ <u>54,950</u>

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2012 and 2011

(7) Related Party Transactions, Continued

	2011			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshall's Energy Company, Inc.	\$ 1,500	\$ 8,499	\$ 1,245	\$ 4,786
Marshall Islands Social Security Administration	-	31,770	-	49,747
College of the Marshall Islands	2,736	-	1,440	-
Marshall Islands National Telecommunications Authority	-	3,976	-	655
RepMar	1,728	55,564	5,537	19,137
Other	<u>7,853</u>	<u>2,820</u>	<u>780</u>	<u>-</u>
	<u>\$ 13,817</u>	<u>\$ 102,629</u>	<u>\$ 9,002</u>	<u>\$ 74,325</u>

During the years ended September 30, 2012 and 2011, MAWC received operating subsidies from RepMar in the amount of \$468,411 and \$388,094, respectively. In addition, MAWC received subsidies for capital projects from RepMar in the amount of \$65,000 and \$525,979 during the years ended September 30, 2012 and 2011, respectively.

(8) Contingency

MAWC receives a substantial amount of its revenue from annual RepMar appropriations. A significant reduction in the level of budgetary support from RepMar, if this were to occur, may have an effect on MAWC's programs and activities. For the year ended September 30, 2013, RepMar appropriated \$325,000 to MAWC for the purpose of funding operations.

**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 the financial statements of Majuro Atoll Waste Company (MAWC) as of and for the year ended September 30, 2012, and have issued our report thereon dated June 6, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of MAWC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered MAWC's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MAWC's internal control over financial reporting.

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 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.

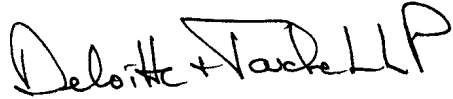
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

We also noted certain matters that we reported to management of MAWC in a separate letter dated June 6, 2013.

This report is intended solely for the information and use of the Board of Directors and management of Majuro Atoll Waste Company, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

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

June 6, 2013

MAJURO ATOLL WASTE COMAPNY

Unresolved Prior Year Findings
Year Ended September 30, 2012

There were no unresolved audit findings from prior year audits of MAWC.