

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

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**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

## MAJURO ATOLL WASTE COMPANY

Years Ended September 30, 2015 and 2014  
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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, 2015 and 2014, 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, 2015 and 2014, 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.

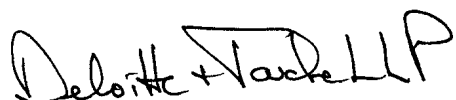
## **Other Matters**

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2016, on our consideration of MAWC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MAWC's internal control over financial reporting and compliance.



August 15, 2016

## **MAJURO ATOLL WASTE COMPANY**

Management's Discussion and Analysis  
Years Ended September 30, 2015 and 2014

### 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, 2015, with comparative information provided for 2014. 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. In FY15, MAWC also received subsidy from the government of the Marshall Islands General Fund amounting to \$130,678. Other sources of funds are provided by grants from government and private institutions, and from MAWC's own revenue from operations.

MAWC is engaged to collect and dispose of solid waste in Majuro Atoll. It is governed by a five-member Board of Directors, chaired by the Secretary of the Ministry of Public Works and managed by 43 employees with the leadership of the General Manager.

### Operational and Financial Performance

MAWC's results of operations for 2015 have decreased its net operating loss by \$36,289 (or 5%) from \$741,117 in 2014 to \$704,828 in 2015. Factors that contributed to the favorable results for 2015 are attributed to a decrease in operating expenses by \$9,704 (or 1%) from \$872,153 in 2014 to \$862,449 in 2015 together with an increase in total net operating revenues by \$26,585 (or 20%) from \$131,036 in 2014 to \$157,621 in 2015. Major contributors to the increase in operating revenues were the increase in income from gate fees, bin collection services, trash special pick-ups, wreck vehicles dumping fee, equipment rentals and interests, sale of compost soil, sale of recycled and re-used items and sale of exported recyclable materials. The decrease in operating expenses were attributed to a reduction in depreciation expense offset by an increase in salaries for addition of new employee for grant writing and an increase in recycling costs.

### **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.

## MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued  
Years Ended September 30, 2015 and 2014

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

	<u>2015</u>		<u>2014</u>		<u>2013</u>
Current and other assets	\$ 69,267	\$	69,225	\$	74,231
Capital assets	<u>795,593</u>		<u>824,995</u>		<u>1,126,121</u>
Total assets	\$ <u>864,860</u>	\$	<u>894,220</u>	\$	<u>1,200,352</u>
Current and other liabilities	\$ 171,301	\$	172,053	\$	131,813
Long-term debt	<u>64,786</u>		<u>93,561</u>		<u>120,000</u>
Total liabilities	<u>236,087</u>		<u>265,614</u>		<u>251,813</u>
Net position:					
Net investment in capital assets	795,593		824,995		1,126,121
Unrestricted	<u>(166,820)</u>		<u>(196,389)</u>		<u>(177,582)</u>
Total net position	<u>628,773</u>		<u>628,606</u>		<u>948,539</u>
Total liabilities and net position	\$ <u>864,860</u>	\$	<u>894,220</u>	\$	<u>1,200,352</u>

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

	<u>2015</u>		<u>2014</u>		<u>2013</u>
Revenues:					
Operating revenues	\$ 157,621	\$	131,036	\$	118,700
Non-operating revenues-grants	509,598		325,000		352,769
Capital grants	<u>201,842</u>		<u>104,965</u>		<u>672,627</u>
Total revenues	869,061		561,001		1,144,096
Expenses:					
Operating expenses	862,449		872,153		845,822
Non-operating expenses	<u>6,445</u>		<u>8,781</u>		-
Total expenses	<u>868,894</u>		<u>880,934</u>		<u>845,822</u>
Change in net position	\$ <u>167</u>	\$	<u>(319,933)</u>	\$	<u>298,274</u>

## MAJURO ATOLL WASTE COMPANY

### Management's Discussion and Analysis, Continued Years Ended September 30, 2015 and 2014

MAWC's total assets decreased by \$29,360 (or 3%) from \$894,220 in 2014 to \$864,860 in 2015. This was primarily due to decrease in cash of \$14,070 (or 43%) from \$33,055 in 2014 to \$18,985 in 2015 and net receivables of \$19,372 (or 55%) from \$35,170 in 2014 to \$15,798 in 2015 offset by the increase in prepayment and other current assets of \$33,484 (or 3,348%) from \$1,000 in 2014 to \$34,484 in 2015. MAWC's total capital assets decreased of \$29,402 (or 4%) from \$824,995 in 2014 to \$795,593 in 2015 was mainly due to current year depreciation of \$250,172 offset by capital asset additions of \$220,770.

Total liabilities decreased by \$29,527 (or 11%) from \$265,614 in 2014 to \$236,087 in 2015. This decrease was mainly attributed to the decrease in long term loan to Bank of Marshall Islands of \$28,775 (or 31%) from \$93,561 in 2014 to \$64,786 in 2015.

MAWC's total revenues (operating, non-operating and capital contributions) increased by \$308,060 (or 55%) from \$561,001 in 2014 to \$869,061 in 2015. This increase in operating revenues was attributed to the increase in operating income from waste collection of \$20,540 (or 20%) from \$103,968 in 2014 to \$124,508 in 2015, recycling income of \$9,311 (or 31%) from \$29,879 in 2014 to \$39,190 in 2015 and miscellaneous income of \$715 (or 24%) from \$3,039 in 2014 to \$3,754 in 2015. Provision for doubtful accounts increased by \$3,981 (or 68%) from \$5,850 in 2014 to \$9,831 in 2015. The increase in non-operating revenues was attributed to the increase in contributions from RepMar of \$130,678 from General Fund for additional operating expenses, grants received from Secretariat of the Pacific Regional Environment Programme or SPREP of \$33,739 for professional training, landfill compactor parts and various tires, Small Grant Scheme from Australian Embassy or AUSAid of \$18,070 for commercial bins and radiator part for loader and from Disaster Office of \$2,111 for the King Tide response. MAWC also received capital contributions from RepMar amounting to \$22,999 for purchase for flatbed truck used for bulky waste and special trash pick-up and \$178,843 for payment of pre-work research/mobilization and on-site charrette, preliminary report, pre-final report and final report for new landfill site in Jenrok.

MAWC's total operating expenses decreased by \$9,704 (or 1%) from \$872,153 in 2014 to \$862,449 in 2015. This decrease was attributed to the decrease in current year depreciation expense, utilities, communication, repairs and maintenance, taxes and licenses and insurance offset by the increase in payroll, fuel, recycling, office supplies, meetings and entertainment, professional and contractual services, advertising, travel, bank charges and other waste collection expenses. Interest expense for the loan from Bank of Marshall Islands decreased by \$2,336 (or 26%) from \$8,781 in 2014 to \$6,445 in 2015.

Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in MAWC's report on the audit of financial statements, which is dated July 9, 2015. Such Management's Discussion and Analysis explains the major factors impacting the FY2014 financial statements and can be obtained from MAWC's General Manager via the contact information on page 6.

### **CAPITAL ASSETS AND LONG-TERM DEBT**

At the end of 2015, MAWC has investments in capital assets, net of accumulated depreciation, of \$795,593 a decrease of \$29,402 (or 4%) from 2014. As mentioned earlier, this decrease is the result of current year depreciation expense of \$250,172 offset by capital asset additions of \$220,770. These additions pertain to office equipment, flatbed truck and nine (9) commercial bins. In addition, MAWC commenced work in progress associated with new Jenrok landfill and incurred capitalized costs of \$178,843 associated with this project in 2015. Capital assets are summarized in note 4 to the financial statements. Please refer to this note for additional information concerning capital assets.

## MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued  
Years Ended September 30, 2015 and 2014

MAWC entered into a \$120,000 bank loan for the purpose of funding operational requirements. At this time, MAWC has an outstanding payable of \$64,786.

### ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

Fiscal Year 2015 Budget

MAWC received:

- ❖ \$325,000 operational funding from RepMar that was submitted from the Environmental Protection Authority (EPA) Budget Matrix 2015.
- ❖ \$130,678 additional operating fund from RepMar's General Fund.
- ❖ \$600,000 capital and infrastructure funding that is intended for closure of Batkan-Jable site and opening of new dumpsite at Jenrok area.
- ❖ \$33,739 from Secretariat of the Pacific Regional Environment Programme or SPREP for professional training and purchase of landfill compactor parts and various tires.
- ❖ \$18,070 from Small Grant Scheme from Australian Embassy or AUSAid for purchase of commercial bins and radiator part for loader.
- ❖ \$2,111 from RepMar's Disaster's Office for the King Tide response.

Fiscal Year 2016 Budget

MAWC operational funding for FY2016 is at \$320,760 added by \$130,678 from RMI General Fund plus the anticipated operating revenue of \$233,813 and grants that aimed to attain the following four outputs/goals:

1. All residential and commercial solid waste in Majuro service areas successfully collected in bins, bags or as bulk materials, and hauled to landfill for segregation, recycling or disposal.
2. All segregated, non-recyclable waste from Majuro service areas effectively disposed of in semi-sanitary landfill.
3. All segregated, recyclable waste from Majuro service areas processed for local reuse or exportation.
4. MAWC's operations and development guided by effective strategic plans and governance of Board of Directors with manager.

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

### Contact Us

Questions associated with the above Management's Discussion and Analysis may be sent by post addressed to Jorelik Tibon, General Manager, P.O. Box 3596, Majuro, MH 96960, or via email to [joreliktibon@gmail.com](mailto:joreliktibon@gmail.com) or call office no. (692)247-2700/2701.



**MAJURO ATOLL WASTE COMPANY**

Statements of Net Position  
September 30, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash	\$ 18,985	\$ 33,055
Receivables, net	15,798	35,170
Prepayments	32,984	-
Other current assets	<u>1,500</u>	<u>1,000</u>
Total current assets	<u>69,267</u>	<u>69,225</u>
Capital assets:		
Nondepreciable	178,843	-
Other capital assets, net of accumulated depreciation	<u>616,750</u>	<u>824,995</u>
Total non-current assets	<u>795,593</u>	<u>824,995</u>
	<u>\$ 864,860</u>	<u>\$ 894,220</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Current portion of loan payable	\$ 31,151	\$ 28,775
Payable to affiliates, current portion	65,926	80,335
Accounts payable	25,126	25,457
Payroll liabilities	58,828	49,934
Payable to employees	20,461	9,728
Other current liabilities	<u>960</u>	<u>936</u>
Total current liabilities	<u>202,452</u>	<u>195,165</u>
Loan payable, net of current portion	33,635	64,786
Payable to affiliates, net of current portion	<u>-</u>	<u>5,663</u>
	<u>33,635</u>	<u>70,449</u>
Total liabilities	<u>236,087</u>	<u>265,614</u>
Contingency		
Net position:		
Net investment in capital assets	795,593	824,995
Unrestricted	<u>(166,820)</u>	<u>(196,389)</u>
Total net position	<u>628,773</u>	<u>628,606</u>
	<u>\$ 864,860</u>	<u>\$ 894,220</u>

See accompanying notes to financial statements.

## MAJURO ATOLL WASTE COMPANY

### Statements of Revenue, Expenses, and Changes in Net Position Years Ended September 30, 2015 and 2014

	2015	2014
Operating revenues:		
Waste collection	\$ 124,508	\$ 103,968
Recycling income	39,190	29,879
Miscellaneous	3,754	3,039
Total operating revenues	167,452	136,886
Less provision for doubtful accounts	(9,831)	(5,850)
Total net operating revenues	157,621	131,036
Operating expenses:		
Payroll	436,881	413,981
Depreciation	250,172	303,952
Fuel	83,577	82,315
Recycling	21,350	7,332
Utilities and communication	12,839	14,207
Office supplies	11,488	8,147
Repairs and maintenance	9,933	13,026
Meetings and entertainment	9,087	6,164
Professional and contractual services	7,602	3,892
Taxes and licenses	3,164	4,659
Advertising	2,591	1,584
Insurance	2,152	4,746
Travel	1,618	-
Miscellaneous	9,995	8,148
Total operating expenses	862,449	872,153
Operating loss	(704,828)	(741,117)
Nonoperating revenues (expenses):		
Contributions from RepMar	455,678	325,000
Other grants and contributions	53,920	-
Interest expense	(6,445)	(8,781)
Total nonoperating revenues, net	503,153	316,219
Loss before capital contributions	(201,675)	(424,898)
Capital contributions:		
RepMar	201,842	104,965
Change in net position	167	(319,933)
Net position at beginning of year	628,606	948,539
Net position at end of year	\$ 628,773	\$ 628,606

See accompanying notes to financial statements.

**MAJURO ATOLL WASTE COMPANY**

Statements of Cash Flows  
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	\$ 176,993	\$ 138,313
Cash payments to suppliers for goods and services	(230,769)	(174,006)
Cash payments to employees for services	(415,744)	(352,955)
Net cash used in operating activities	(469,520)	(388,648)
Cash flows from noncapital financing activities:		
Net repayments under bank loan arrangement	(28,775)	(26,439)
Interest paid on bank loan	(6,445)	(8,781)
Operating subsidy received from RepMar	455,678	325,000
Other grants received	53,920	-
Net cash provided by noncapital financing activities	474,378	289,780
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(220,770)	(2,826)
Capital grants received from RepMar	201,842	104,965
Capital grants received from Government of Japan	-	24,330
Net cash (used in) provided by capital and related financing activities	(18,928)	126,469
Net change in cash	(14,070)	27,601
Cash at beginning of year	33,055	5,454
Cash at end of year	\$ 18,985	\$ 33,055
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (704,828)	\$ (741,117)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	250,172	303,952
Provision for bad debts	9,831	5,850
Decrease (increase) in assets:		
Receivables	9,541	1,427
Prepayments	(32,984)	-
Other current assets	(500)	1,000
Increase (decrease) in liabilities:		
Accounts payable	(331)	(20,157)
Payable to affiliates	(20,072)	28,398
Payroll and other liabilities	19,651	31,999
Net cash used in operating activities	\$ (469,520)	\$ (388,648)

See accompanying notes to financial statements.

## MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2015 and 2014

### (1) Organization

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

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

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

MAWC's financial statements are incorporated into the financial statements of RepMar as a component unit.

### (2) Summary of Significant Accounting Policies

The accounting policies of MAWC conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds.

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

- Net investment in capital assets: 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, 2015 and 2014, 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, 2015 and 2014, MAWC does not have expendable restricted net position.
- 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

Notes to Financial Statements  
September 30, 2015 and 2014

### (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, deferred outflows of resources, 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 for the years ended September 30, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
South Pacific Regional Environment Programme	\$ 33,739	\$ -
Australian Embassy	18,070	-
Other	<u>2,111</u>	<u>-</u>
	<u>\$ 53,920</u>	<u>\$ -</u>

#### 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, 2015 and 2014, the carrying amounts of cash were \$18,985 and \$33,055, respectively, and the corresponding bank balances were \$21,862 and \$38,974, respectively. Of the bank balances, \$6,362 and \$32,688, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits of \$15,500 and \$6,286, 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.

## MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2015 and 2014

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

#### 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 financial statements.

#### Property and Equipment

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

#### Deferred Outflows of Resources

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

#### Deferred Inflows of Resources

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

#### Taxes

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

#### Reclassifications

Certain balances in the 2014 presentation have been reclassified to conform to the 2015 presentation.

## MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2015 and 2014

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards

During the year ended September 30, 2015, MAWC implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements did not have a material effect on the financial statements of MAWC.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the financial statements of MAWC.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of MAWC.

In June 2015, GASB issued 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. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MAWC.

In June 2015, GASB issued 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). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. 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, 2015 and 2014

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards, Continued

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 of MAWC.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MAWC.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MAWC.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, 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, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Trade	\$ 33,740	\$ 41,887
Affiliates	<u>29,596</u>	<u>30,990</u>
	63,336	72,877
Less allowance for doubtful debts	<u>(47,538)</u>	<u>(37,707)</u>
	\$ <u>15,798</u>	\$ <u>35,170</u>



## MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2015 and 2014

### (4) Property, Plant and Equipment

Capital asset activities for the years ended September 30, 2015 and 2014 are as follows:

	2015			
	Balance at			Balance at
	October 1, 2014	Additions	Disposals	September 30, 2015
Office equipment	\$ 9,300	\$ 2,705	\$ -	\$ 12,005
Recycling equipment	227,291	-	-	227,291
Truck and heavy equipment	890,604	22,999	-	913,603
Office building	13,471	-	-	13,471
Waste segregation structure	31,200	16,223	-	47,423
Waste collection equipment	<u>804,835</u>	<u>-</u>	<u>-</u>	<u>804,835</u>
	1,976,701	41,927	-	2,018,628
Less accumulated depreciation	<u>(1,151,706)</u>	<u>(250,172)</u>	<u>-</u>	<u>(1,401,878)</u>
	824,995	(208,245)	-	616,750
Construction in progress	<u>-</u>	<u>178,843</u>	<u>-</u>	<u>178,843</u>
	<u>\$ 824,995</u>	<u>\$ (29,402)</u>	<u>\$ -</u>	<u>\$ 795,593</u>
	2014			
	Balance at			Balance at
	October 1, 2013	Additions	Disposals	September 30, 2014
Office equipment	\$ 7,449	\$ 1,851	\$ -	\$ 9,300
Recycling equipment	226,316	975	-	227,291
Truck and heavy equipment	890,604	-	-	890,604
Office building	13,471	-	-	13,471
Waste segregation structure	31,200	-	-	31,200
Waste collection equipment	<u>804,835</u>	<u>-</u>	<u>-</u>	<u>804,835</u>
	1,973,875	2,826	-	1,976,701
Less accumulated depreciation	<u>(847,754)</u>	<u>(303,952)</u>	<u>-</u>	<u>(1,151,706)</u>
	<u>\$ 1,126,121</u>	<u>\$ (301,126)</u>	<u>\$ -</u>	<u>\$ 824,995</u>

### (5) Risk Management

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

## MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2015 and 2014

### (6) Social Security Taxes Payable

At September 30, 2015 and 2014, MAWC was liable for taxes, including certain delinquent taxes, payable to the Marshall Islands Social Security Administration (MISSA) in the amount of \$21,098 and \$42,680, respectively. On January 14, 2014, MAWC and MISSA entered into a promissory note agreement for delinquent taxes. The terms of this agreement include monthly payments of \$2,000, inclusive of interest at 12% per annum, commencing February 10, 2014.

Changes in social security taxes payable during the years ended September 30, 2015 and 2014 were as follows:

	Balance at October 1, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, 2015	Due Within <u>One Year</u>
Social security taxes payable	\$ <u>42,680</u>	\$ <u>70,504</u>	\$ <u>(92,086)</u>	\$ <u>21,098</u>	\$ <u>21,098</u>
	Balance at October 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, 2014	Due Within <u>One Year</u>
Social security taxes payable	\$ <u>43,309</u>	\$ <u>65,241</u>	\$ <u>(65,870)</u>	\$ <u>42,680</u>	\$ <u>37,017</u>

### (7) Long-Term Debt

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

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

<u>Year ending September 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 31,151	\$ 4,069	\$ 35,220
2017	<u>33,635</u>	<u>1,471</u>	<u>35,106</u>
	\$ <u>64,786</u>	\$ <u>5,540</u>	\$ <u>70,326</u>

Changes in long-term debt during the years ended September 30, 2015 and 2014 were as follows:

	Balance at October 1, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, 2015	Due Within <u>One Year</u>
Commercial bank loan	\$ <u>93,561</u>	\$ <u>-</u>	\$ <u>(28,775)</u>	\$ <u>64,786</u>	\$ <u>31,151</u>

## MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2015 and 2014

### (7) Long-Term Debt, Continued

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

### (8) Related Party Transactions

MAWC utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions as of and for the years ended September 30, 2015 and 2014 are as follows:

	2015			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 1,047	\$ 8,019	\$ 206	\$ -
Marshall Islands Social Security Administration	288	3,291	72	21,098
College of the Marshall Islands	5,371	-	1,125	-
Marshall Islands National Telecommunications Authority	235	4,312	74	-
RepMar	13,295	32,141	15,456	44,828
Other	<u>15,346</u>	<u>482</u>	<u>12,663</u>	<u>-</u>
	<u>\$ 35,582</u>	<u>\$ 48,245</u>	<u>\$ 29,596</u>	<u>\$ 65,926</u>
	2014			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 538	\$ 9,827	\$ 658	\$ -
Marshall Islands Social Security Administration	293	2,041	53	42,680
College of the Marshall Islands	5,248	-	2,160	-
Marshall Islands National Telecommunications Authority	25	4,107	25	-
RepMar	20,033	34,519	20,405	43,318
Other	<u>9,299</u>	<u>340</u>	<u>7,689</u>	<u>-</u>
	<u>\$ 35,436</u>	<u>\$ 50,834</u>	<u>\$ 30,990</u>	<u>\$ 85,998</u>

During the years ended September 30, 2015 and 2014, MAWC received operating subsidies from RepMar as follows:

	<u>2015</u>	<u>2014</u>
Compact Environment Sector Grant	\$ 325,000	\$ 325,000
General Fund	<u>130,678</u>	<u>-</u>
	<u>\$ 455,678</u>	<u>\$ 325,000</u>

In addition, MAWC received Compact Public Infrastructure Sector capital contributions from RepMar in the amount of \$201,842 and \$104,965 for the years ended September 30, 2015 and 2014, respectively.

## MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2015 and 2014

### (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, 2015 and 2014 of \$704,828 and \$741,117, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of \$133,185 at September 30, 2015. Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain MAWC as a going concern. Although RepMar has provided funding in the past, MAWC does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of MAWC's operations is dependent upon the future financial support of RepMar, deferment in payment of certain liabilities, and/or significant improvements in operations.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position at September 30, 2015, is dependent upon continued operations of MAWC, which, in turn, is dependent upon MAWC's ability to provide service to its customers and the success of future operations. Management believes that actions presently being undertaken to revise MAWC's operating requirements, including the generation of positive cash flows from operations, and increasing the customer base, provide the opportunity for MAWC to continue as a going concern. For the year ended September 30, 2016, RepMar appropriated \$320,760 to MAWC for the purpose of funding operations and \$130,678 for capital purposes.

#### Federal Grants

MAWC participates in a number of U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Questioned costs have been set forth in MAWC's Single Audit Report for the year ended September 30, 2015. The ultimate disposition of these questioned costs can be determined only by final action of the grantor agency. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

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

Board of Directors  
Majuro Atoll Waste Company:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Majuro Atoll Waste Company (MAWC), which comprise the statement of net position as of September 30, 2015, 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 August 15, 2016. 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**

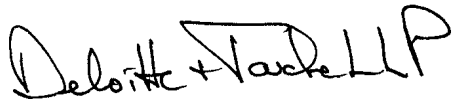
As part of obtaining reasonable assurance about whether MAWC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001.

## **MAWC's Responses to Findings**

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

## **Purpose of this Report**

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

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

August 15, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Board of Directors  
Majuro Atoll Waste Company:

**Report on Compliance for Each Major Federal Program**

We have audited the 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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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.

***Basis for Qualified Opinion on CFDA 15.875 Compact of Free Association Sector Grants***

As described in the accompanying Schedule of Findings and Questioned Costs, MAWC did not comply with requirements regarding CFDA 15.875 Compact of Free Association Sector Grants as described in item 2015-002 for Period of Availability of Federal Funds and item 2015-003 for Reporting. Compliance with such requirements is necessary, in our opinion, for MAWC to comply with the requirements applicable to that program.

## **Qualified Opinion on CFDA 15.875 Compact of Free Association Sector Grants**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, MAWC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 15.875 Compact of Free Association Sector Grants for the year ended September 30, 2015.

### **Other Matters**

MAWC's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. MAWC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2015-002 and 2015-003, that we consider to be material weaknesses.

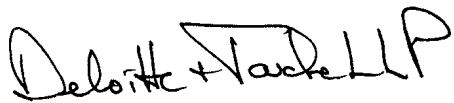
MAWC's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. MAWC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of MAWC as of and for the year ended September 30, 2015, and have issued our report thereon dated August 15, 2016, 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 OMB Circular A-133 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

August 15, 2016

**MAJURO ATOLL WASTE COMPANY**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2015

<u>Program Title</u>	<u>Expenditures FY15</u>
<u>U.S. Department of the Interior:</u>	
Economic, Social and Political Development of the Territories:	
Compact of Free Association Program, As Amended, Sector Grants:	
Section 211(a)(5) Environment	\$ 325,000
Section 211(d)(1) Public Infrastructure Development	<u>201,842</u>
	<u>\$ 526,842</u>

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

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

Environment (included within operating expenses of \$862,449)	\$ 325,000
Capital asset acquisitions	<u>201,842</u>
	<u>\$ 526,842</u>

**MAJURO ATOLL WASTE COMPANY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**A. SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

- |    |   |               |
|----|---|---------------|
| 1. | Type of auditors' report issued:                      | 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? | Yes           |

*Federal Awards*

Internal control over major federal programs:

- |    |  |               |
|----|--|---------------|
| 5. | Material weakness(es) identified?  | Yes           |
| 6. | Significant deficiency(ies) identified?  | None reported |
| 7. | Type of auditors' report issued on compliance for major federal programs:  | Modified      |
| 8. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes           |
| 9. | Identification of major federal programs:  |               |

CFDA

<u>Number</u>	<u>Name of Federal Program</u>
---------------	--------------------------------

15.875	Compact of Free Association, as Amended, Sector Grants
--------	--

- |     |  |           |
|-----|--|-----------|
| 10. | Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 11. | Auditee qualified as a low-risk auditee?                                 | No        |

**B. FINANCIAL STATEMENT FINDINGS**

Reference

<u>Number</u>	<u>Findings</u>
---------------	-----------------

2015-001	Local Noncompliance
----------	---------------------

**MAJURO ATOLL WASTE COMPANY**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2015-002	Period of Availability of Federal Funds	\$ 201,842
2015-003	Reporting	<u>-</u>
		\$ <u>201,842</u>

## MAJURO ATOLL WASTE COMPANY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

#### Finding No. 2015-001

##### Local Noncompliance

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

Condition: MAWC filed and paid income taxes withheld for the year ended September 30, 2015 in a manner inconsistent with the criteria. Specifically, income taxes withheld for the year ended September 30, 2015 were filed but not paid as follows:

<u>Pay Period</u> <u>End</u>	<u>Amount</u> <u>Due</u>
10/07/2014	\$ 2,325
11/05/2014	2,402
12/02/2014	2,368
12/31/2014	3,408
01/28/2015	<u>2,383</u>
	\$ <u>12,886</u>

In addition, MAWC is delinquent for income taxes withheld for the year ended September 30, 2014 of \$27,534 that remain unremitted as of September 30, 2015.

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

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

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

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

## MAJURO ATOLL WASTE COMPANY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-002  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories – Compact of Free Association, As Amended, Compact Sector Grants  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$201,842

Criteria: Section 1(c) of the Notification of Grant Award terms and conditions stated that for FY11 RMI Public Infrastructure Sector Grant, the period of funding availability is from October 1, 2010 to September 30, 2013. Similarly, the FY12 Grant stated that the period of availability is from October 1, 2011 to September 30, 2014.

Condition: As of September 30, 2015, MAWC expended \$159,511 from the FY11 RMI Public Infrastructure Sector Grant and \$42,331 from the FY12 Grant.

Cause: The cause of the above condition appears to be a lack of communication between MAWC as the sub-recipient and the RMI Government.

Effect: The effect of the above condition is noncompliance with the grant agreement regarding period of availability of federal funds and questioned costs result.

Recommendation: We recommend that MAWC comply with period of availability requirements.

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

## MAJURO ATOLL WASTE COMPANY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-003  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories – Compact of Free Association, As Amended, Compact Sector Grants  
Requirement: Reporting  
Questioned Costs: \$0

Criteria: Section 6, Required Reports, of the Memorandum of Agreement between RepMar and MAWC states that MAWC shall provide the Secretary of Finance or its duly authorized representative, with a) Financial Status Report (FSR) detailing the total expenditures incurred during a financial quarter; and b) Annual Report at the end of the financial year.

Condition: As of September 30, 2015, MAWC did not submit any reports to the Secretary of Finance detailing how Compact Sector Grant Funds of \$201,842 were expended.

Cause: The cause of the above condition is due to an inadequate understanding of external agreements entered into by MAWC.

Effect: The effect of the above condition is noncompliance with required reporting requirements.

Recommendation: We recommend that MAWC comply with reporting requirements.

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

**MAJURO ATOLL WASTE COMPANY**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2015

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