

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

MAJURO ATOLL WASTE COMPANY

Years Ended September 30, 2016 and 2015
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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, 2016 and 2015, 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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter***Going Concern***

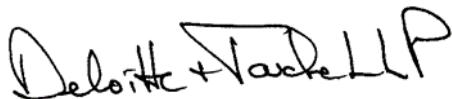
The accompanying financial statements have been prepared assuming that MAWC will continue as a going concern. As discussed in Note 9 to the financial statements, MAWC's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning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

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2017, 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* in considering MAWC's internal control over financial reporting and compliance.



June 16, 2017

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis Years Ended September 30, 2016 and 2015

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, 2016, with comparative information provided for 2015. 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 was established by the Marshall Islands Government in March 2007 to manage landfill operations and provide solid waste services to the residents on Majuro Atoll through collection, disposal and recycling of discarded solid materials in a manner that is safe, efficient, environmentally sound and cost-effective. It operates under the Ministry of Public Works (MPW). Its stakeholders include the Office of Environment Planning & Policy Coordination (OEPCC), the RMI Environmental Protection Authority (RMIEPA), the RMI Ministry of Health (MOH), the Marshall Islands Conservation Society (MICS), and Majuro Atoll Local Government (MalGov).

MAWC is governed by a five-member Board of Directors, chaired by the Secretary of the Ministry of Public Works and managed by 38 employees with the leadership of the General Manager.

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

Collection Operations

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

Recycling Operations

Single stream recycling takes place and most materials except for green material are placed in the garbage truck during the weekly collection. Separation of metals, aluminum cans, tires and glass is done by hand at the landfill.

Green Materials

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

MAWC is subsidized by the RMI-US Compact of Free Association with an average basic annual appropriation of \$320K 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 FY16 and FY15, MAWC also received \$315K and \$130K, respectively, subsidy from the government of the Marshall Islands General Fund. Other sources of funds are provided by grants from government and private institutions, and from MAWC's own revenue from operations.

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued Years Ended September 30, 2016 and 2015

Operational and Financial Performance

MAWC's results of operations for 2016 have increased its net operating loss by \$22,124 (or 3%) from \$704,828 in 2015 to \$726,952 in 2016. Factors that contributed to the unfavorable results for 2016 are attributed to the increase in operating expenses of \$38,044 (or 4%) from \$862,449 in 2015 to \$900,493 in 2016. This was being offset by an increase in total net operating revenues by \$15,920 (or 10%) from \$157,621 in 2015 to \$173,541 in 2016. Major contributors to the increase in operating revenues were the increase in income from gate fees, bin collection services, sale of recycled and re-used items, sale of exported recyclable materials, and miscellaneous income. The increase in operating expenses were attributed to the increase in repairs and maintenance, which purchases were mostly funded by grants received from Secretariat of the Pacific Regional Environment Programme (SPREP); shipping cost of recycling containers, cans and battery purchases; materials used to recycle items; utilities and communication; vehicle insurance; airfare; and wire transfer fees offset by the decrease in payroll; depreciation; fuel and oil; office and computer supplies; meetings; professional and contractual services; advertising and other miscellaneous expenses.

FINANCIAL ANALYSIS OF MAWC

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Current and other assets	\$ 284,305	\$ 69,267	\$ 69,225
Capital assets	<u>778,749</u>	<u>795,593</u>	<u>824,995</u>
Total assets	<u>\$ 1,063,054</u>	<u>\$ 864,860</u>	<u>\$ 894,220</u>
Liabilities:			
Current and other liabilities	\$ 139,490	\$ 171,301	\$ 172,053
Long-term debt	<u>33,635</u>	<u>64,786</u>	<u>93,561</u>
Total liabilities	<u>173,125</u>	<u>236,087</u>	<u>265,614</u>
Net position:			
Net investment in capital assets	778,749	795,593	824,995
Restricted	<u>143,574</u>	<u>-</u>	<u>-</u>
Unrestricted	<u>(32,394)</u>	<u>(166,820)</u>	<u>(196,389)</u>
Total net position	<u>889,929</u>	<u>628,773</u>	<u>628,606</u>
Total liabilities and net position	<u>\$ 1,063,054</u>	<u>\$ 864,860</u>	<u>\$ 894,220</u>

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued Years Ended September 30, 2016 and 2015

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenues:			
Operating revenues	\$ 173,541	\$ 157,621	\$ 131,036
Nonoperating revenues	787,376	509,598	325,000
Capital grants and contributions	204,801	201,842	104,965
Total revenues	<u>1,165,718</u>	<u>869,061</u>	<u>561,001</u>
Expenses:			
Operating expenses	900,493	862,449	872,153
Nonoperating expenses	4,069	6,445	8,781
Total expenses	<u>904,562</u>	<u>868,894</u>	<u>880,934</u>
Change in net position	<u>\$ 261,156</u>	<u>\$ 167</u>	<u>\$ (319,933)</u>

MAWC's total assets increased by \$198,194 (or 23%) from \$864,860 in 2015 to \$1,063,054 in 2016. This increase was primarily due to increase in cash of \$165,047 (or 869%) from \$18,985 in 2015 to \$184,032 in 2016; net receivables of \$7,100 (or 45%) from \$15,798 in 2015 to \$22,898 in 2016; and prepayments of \$42,891 (or 130%) from \$32,984 in 2015 to \$75,875 in 2016. MAWC's total capital assets decreased by \$16,844 (or 2%) from \$795,593 in 2015 to \$778,749 in 2016 was primarily due to current year depreciation of \$223,382 offset by the increase in non-depreciable assets of \$182,444 (or 102%) from \$178,843 in 2015 to \$361,287 in 2016.

Total liabilities decreased by \$62,962 (or 27%) from \$236,087 in 2015 to \$173,125 in 2016. This decrease was mainly attributed to the decrease in loan payable to Bank of Marshall Islands of \$31,151 (or 48%) from \$64,786 in 2015 to \$33,635 in 2016; payable to affiliates of \$15,940 (or 24%) from \$65,926 in 2015 to \$49,986 in 2016, accounts payable of \$5,906 (or 24%) from \$25,126 in 2015 to \$19,220 in 2016, and payroll liabilities of \$17,974 (or 31%) from \$58,828 in 2015 to \$40,854 in 2016. These were offset by increase in payable to employees of \$7,985 (or 39%) from \$20,461 in 2015 to \$28,446 in 2016 and increase in other current liabilities of \$24 (or 2%) from \$960 in 2015 to \$984 in 2016.

MAWC's total revenues (operating, non-operating and capital contributions) increased by \$296,657 (or 34%) from \$869,061 in 2015 to \$1,165,718 in 2016. This increase in operating revenues was attributed to the increase in operating income from waste collection of \$11,917 (or 10%) from \$124,508 in 2015 to \$136,425 in 2016, recycling income of \$2,094 (or 5%) from \$39,190 in 2015 to \$41,284 in 2016 and miscellaneous income of \$666 (or 18%) from \$3,754 in 2015 to \$4,420 in 2016. Provision for doubtful accounts decreased by \$1,243 (or 13%) from \$9,831 in 2015 to \$8,588 in 2016. The increase in non-operating revenues was attributed to the increase in contributions from RepMar of \$184,512 from General Fund for capital acquisition, grants received from SPREP of \$151,426, and grants received from the Japan Embassy of \$130,363. MAWC also received capital contributions from RepMar of \$74,438 for the mobilization of new landfill detailed engineering design professional services.

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued Years Ended September 30, 2016 and 2015

MAWC's total operating expenses increased by \$38,044 (or 4%) from \$862,449 in 2015 to \$900,493 in 2016. This increase was attributed to the increase in equipment repairs and maintenance, recycling costs, utilities & communication expenses, insurance, travel, and taxes and licenses.

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in MAWC's report on the audit of financial statements, which is dated August 15, 2016. Such Management's Discussion and Analysis explains the major factors impacting the FY2015 financial statements and can be obtained from MAWC's General Manager via the contact information below.

CAPITAL ASSETS AND LONG-TERM DEBT

At the end of 2016, MAWC has investments in capital assets, net of accumulated depreciation, of \$778,749, a decrease of \$16,844 (or 2%) from \$795,593 in 2015. As mentioned earlier, this decrease is the result of current year depreciation expense of \$223,382 offset by capital asset additions of \$206,538. These additions pertain to Jenrok landfill design, constructed recycle center as well as recycling equipment and transmission parts for the international loader trucks. Capital assets are summarized in note 4 to the financial statements. Please refer to this note for additional information concerning capital assets.

MAWC entered into a \$120,000 bank loan for the purpose of funding operational requirements. At this time, MAWC has an outstanding payable of \$33,635 due on September 2017. Long-term debt is summarized in note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

Fiscal Year 2016 Budget

MAWC received:

- ❖ \$320,760 operational funding from RepMar that was submitted from the Environmental Protection Authority (EPA) Budget Matrix 2016 under US Compact of Free Association.
- ❖ \$315,190 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.
- ❖ \$151,426 from Secretariat of the Pacific Regional Environment Programme or SPREP for purchase of equipment and truck parts, various tires and lokwe blue bags and shipping of scrap metals to Australia.
- ❖ \$184,512 from RepMar to purchase an incinerator.
- ❖ \$130,363 from Japan Grassroot for building the Recycle Center.

MAJURO ATOLL WASTE COMPANY

Management's Discussion and Analysis, Continued
Years Ended September 30, 2016 and 2015

Fiscal Year 2017 Budget

RepMar has increased MAWC's operational funding for FY2017 from RMI General Fund by \$22,120 (or 17%) from \$130,678 in 2016 to \$152,798 in 2017 and decreased US Compact operational fund by \$1,540 (or .48%) from \$320,760 in 2016 to \$319,220 in 2017. In addition to the RepMar funding, MAWC's anticipated operating revenue of \$195,074 and grants 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 or call office no. (692)247-2700/2701.

MAJURO ATOLL WASTE COMPANY

Statements of Net Position
September 30, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current assets:		
Cash	\$ 184,032	\$ 18,985
Receivables, net	22,898	15,798
Prepayments	24,591	32,984
Other current assets	<u>1,500</u>	<u>1,500</u>
Total current assets	<u>233,021</u>	<u>69,267</u>
Noncurrent assets:		
Deposit on acquisition of capital assets	51,284	-
Capital assets:		
Nondepreciable	368,731	178,843
Other capital assets, net of accumulated depreciation	<u>410,018</u>	<u>616,750</u>
Total non-current assets	<u>830,033</u>	<u>795,593</u>
	<u>\$ 1,063,054</u>	<u>\$ 864,860</u>

LIABILITIES AND NET POSITION

Current liabilities:		
Current portion of loan payable	\$ 33,635	\$ 31,151
Payable to affiliates	49,986	65,926
Accounts payable	19,220	25,126
Payroll liabilities	40,854	58,828
Payable to employees	28,446	20,461
Other current liabilities	<u>984</u>	<u>960</u>
Total current liabilities	<u>173,125</u>	<u>202,452</u>
Loan payable, net of current portion	<u>-</u>	<u>33,635</u>
Total liabilities	<u>173,125</u>	<u>236,087</u>
Contingency		
Net position:		
Net investment in capital assets	778,749	795,593
Restricted	143,574	-
Unrestricted	<u>(32,394)</u>	<u>(166,820)</u>
Total net position	<u>889,929</u>	<u>628,773</u>
	<u>\$ 1,063,054</u>	<u>\$ 864,860</u>

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Waste collection	\$ 136,425	\$ 124,508
Recycling income	41,284	39,190
Miscellaneous	<u>4,420</u>	<u>3,754</u>
Total operating revenues	<u>182,129</u>	<u>167,452</u>
Less provision for doubtful accounts	<u>(8,588)</u>	<u>(9,831)</u>
Total net operating revenues	<u>173,541</u>	<u>157,621</u>
Operating expenses:		
Payroll	403,669	436,881
Depreciation	223,382	250,172
Repairs and maintenance	96,087	9,933
Fuel	75,037	83,577
Recycling	50,852	21,350
Utilities and communication	14,429	12,839
Office supplies	8,512	11,488
Meetings and entertainment	7,590	9,087
Professional and contractual services	4,493	7,602
Insurance	4,010	2,152
Travel	3,800	1,618
Taxes and licenses	3,688	3,164
Advertising	1,382	2,591
Miscellaneous	<u>3,562</u>	<u>9,995</u>
Total operating expenses	<u>900,493</u>	<u>862,449</u>
Operating loss	<u>(726,952)</u>	<u>(704,828)</u>
Nonoperating revenues (expenses):		
Contributions from RepMar	635,950	455,678
Other grants and contributions	151,426	53,920
Interest expense	<u>(4,069)</u>	<u>(6,445)</u>
Total nonoperating revenues, net	<u>783,307</u>	<u>503,153</u>
Loss before capital contributions	<u>56,355</u>	<u>(201,675)</u>
Capital contributions:		
RepMar	74,438	201,842
Government of Japan	<u>130,363</u>	<u>-</u>
Total capital contributions	<u>204,801</u>	<u>201,842</u>
Change in net position	261,156	167
Net position at beginning of year	<u>628,773</u>	<u>628,606</u>
Net position at end of year	<u>\$ 889,929</u>	<u>\$ 628,773</u>

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from customers	\$ 166,441	\$ 176,993
Cash payments to suppliers for goods and services	(272,958)	(230,769)
Cash payments to employees for services	<u>(427,571)</u>	<u>(415,744)</u>
Net cash used in operating activities	<u>(534,088)</u>	<u>(469,520)</u>
Cash flows from noncapital financing activities:		
Net repayments under bank loan arrangement	(31,151)	(28,775)
Interest paid on bank loan	(4,069)	(6,445)
Operating subsidy received from RepMar	635,950	455,678
Other grants received	<u>151,426</u>	<u>53,920</u>
Net cash provided by noncapital financing activities	<u>752,156</u>	<u>474,378</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(183,384)	(220,770)
Capital grants received from RepMar	-	201,842
Capital grants received from Government of Japan	<u>130,363</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(53,021)</u>	<u>(18,928)</u>
Net change in cash	165,047	(14,070)
Cash at beginning of year	<u>18,985</u>	<u>33,055</u>
Cash at end of year	<u>\$ 184,032</u>	<u>\$ 18,985</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (726,952)	\$ (704,828)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	223,382	250,172
Provision for bad debts	8,588	9,831
Decrease (increase) in assets:		
Receivables	(15,688)	9,541
Prepayments	8,393	(32,984)
Other current assets	-	(500)
Increase (decrease) in liabilities:		
Accounts payable	(4,193)	(331)
Payable to affiliates	(17,653)	(20,072)
Payroll and other liabilities	<u>(9,965)</u>	<u>19,651</u>
Net cash used in operating activities	<u>\$ (534,088)</u>	<u>\$ (469,520)</u>
Summary of noncash financing activities:		
Payments made by RepMar for the Jenrok landfill design:		
Capital grant from RepMar	\$ 74,438	\$ -
Acquisition of capital assets	<u>(74,438)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements September 30, 2016 and 2015

(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, 2016 and 2015, MAWC does not have nonexpendable restricted net position. Expendable net position whose use by MAWC is subject to externally imposed stipulations that can be fulfilled by actions of MAWC pursuant to those stipulations or that expire with the passage of time. As of September 30, 2016 and 2015, MAWC has expendable net position amounting to \$143,574 and \$0, respectively.
- 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, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

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

Operating and Non-Operating Revenue and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of MAWC. Non-operating revenues and expenses result from capital and related financing activities as well as certain other non-recurring income and expense items. Other grants and contributions revenue for the years ended September 30, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Secretariat of the Pacific Regional Environment Programme	\$ 151,426	\$ 33,739
Australian Embassy	-	18,070
Other	<u>—</u>	<u>2,111</u>
	<u>\$ 151,426</u>	<u>\$ 53,920</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, 2016 and 2015, the carrying amounts of cash were \$184,032 and \$18,985, respectively, and the corresponding bank balances were \$190,345 and \$21,862, respectively. Of the bank balances, \$155,587 and \$6,362, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016 and 2015, bank deposits in the amount of \$190,345 and \$21,862, respectively, were FDIC insured. Bank deposits of \$34,758 and \$15,500, respectively, are maintained in a financial institution not subject to depository insurance. MAWC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

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

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Prepayments

Certain prepayments to vendors or persons for goods and services reflect costs applicable to future accounting periods and are recorded as prepayments in the accompanying 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 represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MAWC has no items that qualify for reporting in this category.

Deferred Inflows of Resources

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

Taxes

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

New Accounting Standards

During the year ended September 30, 2016, MAWC implemented the following pronouncements:

- GASB 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.
- 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 No. 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.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

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

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, 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.

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 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.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 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.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 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 March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MAWC.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 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.

Estimates

The preparation of financial statements in accordance 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 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, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Trade Affiliates	\$ 42,717 <u>36,307</u>	\$ 33,740 <u>29,596</u>
Less allowance for doubtful debts	79,024 (56,126)	63,336 (47,538)
	<u>\$ 22,898</u>	<u>\$ 15,798</u>

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements September 30, 2016 and 2015

(4) Property and Equipment

Capital asset activities for the years ended September 30, 2016 and 2015 are as follows:

	<u>2016</u>			
	<u>Balance at October 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at September 30, 2016</u>
Office equipment	\$ 12,005	\$ -	\$ -	\$ 12,005
Recycling equipment	227,291	11,373	-	238,664
Truck and heavy equipment	913,603	-	-	913,603
Office building	13,471	-	-	13,471
Waste segregation structure	47,423	-	-	47,423
Waste collection equipment	<u>804,835</u>	<u>5,277</u>	<u>-</u>	<u>810,112</u>
Less accumulated depreciation	2,018,628	16,650	-	2,035,278
	<u>(1,401,878)</u>	<u>(223,382)</u>	<u>-</u>	<u>(1,625,260)</u>
Construction in progress	616,750	(206,732)	-	410,018
	<u>178,843</u>	<u>189,888</u>	<u>-</u>	<u>368,731</u>
	<u>\$ 795,593</u>	<u>\$ (16,844)</u>	<u>\$ -</u>	<u>\$ 778,749</u>
	<u>2015</u>			
	<u>Balance at October 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at September 30, 2015</u>
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>
Less accumulated depreciation	1,976,701	41,927	-	2,018,628
	<u>(1,151,706)</u>	<u>(250,172)</u>	<u>-</u>	<u>(1,401,878)</u>
Construction in progress	824,995	(208,245)	-	616,750
	<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>

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

(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, 2016 and 2015

(6) Social Security Taxes Payable

At September 30, 2015, MAWC was liable for certain delinquent taxes payable to the Marshall Islands Social Security Administration (MISSA) in the amount of \$5,663. On January 14, 2014, MAWC and MISSA entered into a promissory note agreement for delinquent taxes in the initial amount of \$39,426. The terms of this agreement included monthly payments of \$2,000, inclusive of interest at 12% per annum, commencing February 10, 2014. Obligations under this agreement were settled in full during the year ended September 30, 2016.

Changes in delinquent social security taxes payable during the years ended September 30, 2016 and 2015 were as follows:

Balance at October 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September <u>30, 2016</u>	Due Within <u>One Year</u>
\$ <u>5,663</u>	\$ _____	\$ <u>(5,663)</u>	\$ _____	\$ _____
Balance at October 1, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September <u>30, 2015</u>	Due Within <u>One Year</u>
\$ <u>25,215</u>	\$ _____	\$ <u>(19,552)</u>	\$ <u>5,663</u>	\$ <u>5,663</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>
2017	\$ <u>33,635</u>	\$ <u>1,471</u>	\$ <u>35,106</u>

Changes in long-term debt during the years ended September 30, 2016 and 2015 were as follows:

Balance at October 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September <u>30, 2016</u>	Due Within <u>One Year</u>
Commercial bank loan \$ <u>64,786</u>	\$ _____	\$ <u>(31,151)</u>	\$ <u>33,635</u>	\$ <u>33,635</u>
Balance at October 1, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September <u>30, 2015</u>	Due Within <u>One Year</u>
Commercial bank loan \$ <u>93,561</u>	\$ _____	\$ <u>(28,775)</u>	\$ <u>64,786</u>	\$ <u>31,151</u>

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements September 30, 2016 and 2015

(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, 2016 and 2015 are as follows:

	<u>2016</u>			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 2,449	\$ 8,295	\$ 959	\$ 1,449
Marshall Islands Social Security Administration	288	35,789	48	17,358
College of the Marshall Islands	5,131	-	1,195	-
Marshall Islands National Telecommunications Authority	25	5,471	99	264
RepMar	6,200	3,698	20,956	30,915
Other	<u>20,767</u>	<u>1,025</u>	<u>13,050</u>	<u>-</u>
	<u>\$ 34,860</u>	<u>\$ 54,278</u>	<u>\$ 36,307</u>	<u>\$ 49,986</u>

	<u>2015</u>			
	<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>

MAWC received operating subsidies from RepMar during the years ended September 30, 2016 and 2015, as follows:

	<u>2016</u>	<u>2015</u>
Compact Environment Sector Grant	\$ 320,760	\$ 325,000
General Fund	<u>315,190</u>	<u>130,678</u>
	<u>\$ 635,950</u>	<u>\$ 455,678</u>

In addition, MAWC received Compact Public Infrastructure Sector capital contributions from RepMar during the years ended September 30, 2016 and 2015, as follows:

	<u>2016</u>	<u>2015</u>
Jenrok landfill design	\$ 74,438	\$ 178,843
Heavy equipment acquisition	<u>-</u>	<u>22,999</u>
	<u>\$ 74,438</u>	<u>\$ 201,842</u>

During the year ended September 30, 2016, RepMar made direct payments to the vendor of \$74,438 for the Jenrok landfill design on behalf of MAWC.

MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements
September 30, 2016 and 2015

(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, 2016 and 2015 of \$726,952 and \$704,828, respectively. Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain MAWC as a going concern. Although RepMar has provided funding in the past, MAWC does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of MAWC's operations is dependent upon the future financial support of RepMar, deferment in payment of certain liabilities, and/or significant improvements in operations.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position at September 30, 2016, 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, 2017, RepMar appropriated \$473,250 to MAWC for the purpose of funding operations and \$2,108,000 for capital purposes.

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

Board of Directors
Majuro Atoll Waste Company:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Majuro Atoll Waste Company (MAWC), which comprise the statement of net position as of September 30, 2016, and the related statements of revenues, expenses, and change in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 16, 2017. Our report included an emphasis-of-matter paragraph regarding a going concern uncertainty.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2016-001 that we consider to be material weaknesses.

Compliance and Other Matters

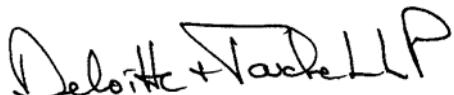
As part of obtaining reasonable assurance about whether MAWC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-002 and 2016-003.

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 & Touche LLP". The signature is fluid and cursive, with "Deloitte" on the left, "Touche" in the middle, and "LLP" on the right.

June 16, 2017

MAJURO ATOLL WASTE COMPANY

Schedule of Findings and Responses Year Ended September 30, 2016

Finding No. 2016-001

Financial Reporting

Criteria: Timely financial reporting should be facilitated by internal control structure conducive to the preparation and independent review of reconciliations of all significant general ledger accounts.

Condition: MAWC did not close fiscal year September 30, 2016 financial information (trial balance and subsidiary ledgers) until April 19, 2017.

Cause: The cause of the above condition is the lack of timely closing at year-end and the absence of timely reviews and reconciliations of all significant general ledger accounts.

Effect: The trial balance was not timely provided for audit purposes.

Recommendation: We recommend that MAWC implement internal control procedures to facilitate more timely general ledger reconciliation processes.

Auditee Response and Corrective Action Plan: We concur with the finding and agreed with the recommendation.

MAJURO ATOLL WASTE COMPANY

Schedule of Findings and Responses, Continued Year Ended September 30, 2016

Finding No. 2016-002

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, 2016 in a manner inconsistent with the criteria. Specifically, income taxes withheld for the year ended September 30, 2016 were filed but not paid as follows:

<u>Pay Period</u>	<u>Amount</u>
<u>End</u>	<u>Due</u>
08/12/2016	\$ 2,334
09/09/2016	2,175
10/07/2016	<u>2,000</u>
	<u>\$ 6,509</u>

In addition, MAWC is delinquent with respect to income taxes withheld for the years ended September 30, 2015 and 2014 of \$12,886 and \$11,019, respectively, that remain unremitted as of September 30, 2016.

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.

Prior Year Status: The lack of compliance with the RMI Income Tax Act of 1989 was reported as a finding in the audits of MAWC for the fiscal years 2014 and 2015.

Auditee Response and Corrective Action Plan: We concur with the finding and agreed with the recommendation.

MAJURO ATOLL WASTE COMPANY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No. 2016-003

Local Noncompliance

Criteria: RepMar's Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by Repmar's Policy Office; provided, however, that procurement requirements shall not be artificially divided so as to constitute a small purchase under this Section. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.
- (d) Section 129 - notwithstanding any other provision of this Act, emergency procurement may be made when there exists a threat to public health, welfare, or safety under emergency conditions as defined in regulations promulgated by the Policy Office; provided, that such emergency procurement shall be made with such competition as is practicable under the circumstances. A written determination of the basis for the emergence and for the selection of the particular contractor shall be included in the contract file.

Condition: MAWC contracted to buy a \$102,268 incinerator which was not awarded in accordance with the criteria. The choice of the vendor was made by the members of MAWC Board of Directors from three proposals that did not undergo competitive sealed bidding.

In addition, purchases of \$2,496 of fuel and oil were not adequately documented to evidence compliance with the criteria.

Cause: The cause of the above condition is a lack of planning and adequate internal control policies and procedures requiring documentation of procurement procedures and compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code.

Auditee Response and Corrective Action Plan: We concur with the finding and agreed with the recommendation.

MAJURO ATOLL WASTE COMPANY

Unresolved Prior Year Findings
Year Ended September 30, 2016

The status of unresolved prior year findings is discussed within the Schedule of Findings and Responses section of this report.