

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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

Years Ended September 30, 2018 and 2017
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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, 2018 and 2017, 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, 2018 and 2017, 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 7 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 7 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.

Contingency

As discussed in Note 4 to the financial statements, the construction of a landfill is currently on hold due to insufficient funding. Management believes that continuation of the landfill construction is dependent upon funding being available from RepMar. Our opinion is not modified with respect to this matter.

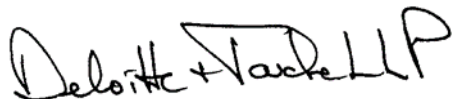
Other Matters

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 May 8, 2019, on our consideration of MAWC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MAWC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MAWC's internal control over financial reporting and compliance.



May 8, 2019

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

Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

Overview

As management of the Majuro Atoll Waste Company (MAWC), we offer the readers of MAWC's financial statements this narrative overview and analysis of the financial activities of MAWC for the fiscal year ending September 30, 2018, with comparative information provided for 2017 and 2016. We encourage the readers to consider the information presented here in conjunction with additional information that we have furnished in MAWC's financial statements.

MAWC is a state-owned enterprise of the Republic of the Marshall Islands currently under the Ministry of Works, Infrastructure and Utilities. MAWC is subsidized annually by the RMI-US Compact of Free Association from its inception in 2007 with which it is required by law to follow the usage agreement as outlined in its sub-award agreement with the RMI Finance Department. In FY 2015, MAWC also started to receive General Fund subsidies from the government of the Republic of the Marshall Islands. 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 on Majuro Atoll. It is governed by a five-member Board of Directors, chaired by the Secretary of Ministry of Works, Infrastructure and Utilities and four members namely from the Majuro Atoll Local Government (MALGov), the Chamber of Commerce (CoC), the Marshall Islands Conservation Society (MICS), and the Marshall Islands Travel Association (MITA), and managed by 61 employees with the leadership of the General Manager.

Operational and Financial Performance

MAWC's results of operations for FY 2018 have increased its net operating loss by \$175,060 (or 28.18%) from \$621,249 in 2017 to \$796,309 in 2018. Factors that contributed to the unfavorable results for 2018 are attributed to the increase in operating expenses by \$269,616 (or 34.01%) from \$792,657 in 2017 to \$1,062,273 in 2018 offset by an increase in total operating revenues by \$94,556 (or 55.16%) from \$171,408 in 2017 to \$265,964 in 2018.

Major contributors to the increase in operating revenues were the increase of income from sale of recycled and re-used items, sale of exported recyclable materials and income from new the Container Deposit Legislation (CDL) recycling program (the Styrofoam Cups and Plates, and Plastic Products Prohibition, and Container Deposit Act 2016) offset by the decrease in waste bin service collection and miscellaneous income. The increase in operating expenses were attributed to the addition of employees for the new Laura Transfer Station, CDL recycling expenses, additional costs incurred to service Airport to Laura, land lease, repairs and maintenance of equipment and facility, employees training, new trucks registration and permits, and import taxes for equipment parts.

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2018 and 2017

FINANCIAL ANALYSIS OF MAWC

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 504,925	\$ 161,859	\$ 284,305
Capital assets	<u>1,441,005</u>	<u>1,606,972</u>	<u>778,749</u>
Total assets	\$ <u>1,945,930</u>	\$ <u>1,768,831</u>	\$ <u>1,063,054</u>
Current liabilities	\$ 121,459	\$ 123,260	\$ 139,490
Long-term debt	<u>-</u>	<u>-</u>	<u>33,635</u>
Total Liabilities	<u>121,459</u>	<u>123,260</u>	<u>173,125</u>
Net position:			
Net investment in capital assets	1,441,005	1,606,972	778,749
Restricted	399,626	-	143,574
Unrestricted	<u>(16,160)</u>	<u>38,599</u>	<u>(32,394)</u>
Total net position	<u>1,824,471</u>	<u>1,645,571</u>	<u>889,929</u>
Total liabilities and net position	\$ <u>1,945,930</u>	\$ <u>1,768,831</u>	\$ <u>1,063,054</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues:			
Operating revenues	\$ 265,964	\$ 171,408	\$ 173,541
Non-operating revenues-grants	518,214	472,018	787,376
Capital grants	<u>456,995</u>	<u>915,331</u>	<u>204,801</u>
Total revenues	1,241,173	1,558,757	1,165,718
Expenses:			
Operating expenses	1,062,273	792,657	900,493
Non-operating expenses	<u>-</u>	<u>10,458</u>	<u>4,069</u>
Total expenses	<u>1,062,273</u>	<u>803,115</u>	<u>904,562</u>
Change in net position	\$ <u>178,900</u>	\$ <u>755,642</u>	\$ <u>261,156</u>

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2018 and 2017

MAWC's total assets have increased by \$177,099 (or 10.01%) from \$1,768,831 in 2017 to \$1,945,930 in 2018. This was primarily due to the increase in cash of \$333,400 (or 304.92%) from \$109,340 in 2017 to \$442,740 in 2018 and the increase in net receivables of \$15,967 (or 38.54%) from \$41,428 in 2017 to \$57,395 in 2018 offset by the decrease in prepayments and other current assets of \$6,301 (or 56.81%) from \$11,091 in 2017 to \$4,790 in 2018. MAWC's total capital assets decreased by \$165,967 (or 10.33%) from \$1,606,972 in 2017 to \$1,441,005 in 2018, which was mainly due to current year depreciation of \$226,744 offset by capital asset additions of \$60,777.

Total liabilities have decreased by \$1,801 (or 1.46%) from \$123,260 in 2017 to \$121,459 in 2018. This decrease was attributed to the increase in accounts payable of \$11,411 (or 47.29%) from \$24,132 in 2017 to \$35,543 in 2018, the increase in payable to affiliates of \$7,699 (or 33.57%) from \$22,932 in 2017 to \$30,631 in 2018, the increase in payroll liabilities of \$16,833 (or 45.07%) from \$37,348 in 2017 to \$54,181 in 2018, and the increase in other current liabilities of \$120 (or 12.2%) from \$984 in 2017 to \$1,104 in 2018 offset by the decrease in the payable to employees account of \$37,864.

MAWC's total revenues (operating, non-operating and capital contributions) decreased by \$317,584 (or 20.37%) from \$1,558,757 in 2017 to \$1,241,173 in 2018. This decrease was attributed to the decrease in operating income from waste collection of \$18,740 (or 14.31%) from \$130,943 in 2017 to \$112,203 in 2018 and miscellaneous revenues of \$3,253 (or 92.55%) from \$3,515 in 2017 to \$262 in 2018 offset by the increase in recycling income of \$116,549 (or 315.42%) from \$36,950 in 2017 to \$153,499 in 2018. Increase in non-operating revenues was attributed to the increase in non-capital contributions from REPMAR of \$46,196 (or 9.79%) from \$472,018 in 2017 to \$518,214 in 2018 offset by a decrease in capital contribution grants received of \$458,336 (of 50.07%) from \$915,331 in 2017 to \$456,995 in 2018. The capital contribution received in 2018 from the Republic of China through the RMI Ministry of Finance amounting to \$456,995 was for the new Laura Transfer Station.

MAWC's total operating expenses increased by \$269,616 (or 34.01%) from \$792,657 in 2017 to \$1,062,273 in 2018. This increase was attributed to the increase in payroll costs of \$136,159 (or 37.26%) from \$365,399 in 2017 to \$501,558 in 2018, current year depreciation expense of \$3,609 (or 1.62%) from \$223,135 in 2017 to \$226,744 in 2018, recycling expenses of \$70,300 (or 224.63%) from \$31,296 in 2017 to \$101,596 in 2018, fuel and oil expenses of \$22,491 (or 32.03%) from \$70,214 in 2017 to \$92,705 in 2018, repairs and maintenance expense of \$45,627 (or 436.45%) from \$10,454 in 2017 to \$56,081 in 2018, professional and contractual services expense of \$9,143 (or 109.31%) from \$8,364 in 2017 to \$17,507 in 2018, office supplies expense of \$1,223 (or 10.85%) from \$11,276 in 2017 to \$12,499 in 2018, meetings and entertainment expense of \$4,958 (or 73.3%) from \$6,764 in 2017 to \$11,722 in 2018, utilities and communication expense of \$810 (or 7.51%) from \$10,784 in 2017 to \$11,594 in 2018, travel expense of \$9,320 (or 871.03%) from \$1,070 in 2017 to \$10,390 in 2018, taxes and licenses expense of \$1,690 (or 40.19%) from \$4,205 in 2017 to \$5,895 in 2018 and lease expense incurred in 2018 of \$4,850 offset by the decrease in insurance expense of \$918 (or 27.18%) from \$3,378 in 2017 to \$2,460 in 2018, advertising expense of \$98 (or 8.57%) from \$1,144 in 2017 to \$1,046 in 2018, waste collection expense of \$38,687 (or 98.15%) from \$39,416 in 2017 to \$729 in 2018 and miscellaneous expense of \$861 (or 14.95%) from \$5,758 in 2017 to \$4,897 in 2018.

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2018 and 2017

Management's Discussion and Analysis for the year ended September 30, 2017 is set forth in MAWC's report on the audit of financial statements, which is dated June 26, 2018. Such Management Discussion and Analysis explains the major factors impacting the FY2017 financial statements and can be obtained from MAWC's General Manager via the contact information on page 7.

CAPITAL ASSETS AND LONG-TERM DEBT

At the end of 2018, MAWC has investment in capital assets, net of accumulated depreciation, of \$1,441,005 a decrease of \$165,967 (or 10.33%) from 2017. As mentioned earlier, this decrease is the result of current year depreciation expense of \$226,744 offset by capital asset additions of \$60,777. These capital asset additions pertain to rain gutter set and water catchment, office equipment, commencement of the Laura Transfer Station construction, chipper shredder, long bed and flatbed truck. MAWC currently recognizes certain costs associated with the Jenrok landfill of \$903,552 within construction in progress. Management believes that continuation of the landfill construction is dependent upon future funding being made available by RepMar. Capital assets are summarized in the notes to the financial statements. Please refer to note 4 for additional information concerning capital assets.

At this time, MAWC has no long-term debt.

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

Fiscal Year 2018 Budget

MAWC received:

- ❖ \$180,766 operational funding from RepMar that was from RMI-US Compact.
- ❖ \$301,598 additional operating fund from RepMar's general fund.
- ❖ \$456,995 capital funding from RepMar that was from ROC.

Fiscal Year 2019 Budget

MAWC operational funding for FY2019 decreased by \$78,334 (or 16.24%) from \$482,364 in 2018 to \$404,030 in 2019 that will be coming from the RMI General Fund plus the anticipated operating revenues of \$190,182 and grants that aim 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 also applied for a Japan Grassroot grant amounting to \$90,000 to purchase wood chipper to support Laura Transfer Station activities.

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2018 and 2017

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

Contact Us

Questions associated with the above MD&A may be sent by post addressed to Jorelik Tibon, General Manager, P.O. Box 3596, Majuro, MH 96960, or via email to jorelik.tibon1@gmail.com or call office no. (692)247-2700/2701.

MAJURO ATOLL WASTE COMPANY
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Statements of Net Position
September 30, 2018 and 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash	\$ 442,740	\$ 109,340
Receivables, net	57,395	41,428
Other current assets	<u>4,790</u>	<u>11,091</u>
Total current assets	<u>504,925</u>	<u>161,859</u>
Noncurrent assets:		
Capital assets:		
Nondepreciable	911,613	903,552
Depreciable capital assets, net of accumulated depreciation	<u>529,392</u>	<u>703,420</u>
Total noncurrent assets	<u>1,441,005</u>	<u>1,606,972</u>
	<u>\$ 1,945,930</u>	<u>\$ 1,768,831</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 35,543	\$ 24,132
Payable to affiliates	30,631	\$ 22,932
Payroll liabilities	54,181	37,348
Payable to employees	-	37,864
Other current liabilities	<u>1,104</u>	<u>984</u>
Total liabilities	<u>121,459</u>	<u>123,260</u>
Contingency		
Net position:		
Net investment in capital assets	1,441,005	1,606,972
Restricted	399,626	-
Unrestricted	<u>(16,160)</u>	<u>38,599</u>
Total net position	<u>1,824,471</u>	<u>1,645,571</u>
	<u>\$ 1,945,930</u>	<u>\$ 1,768,831</u>

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY
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Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018	2017
Operating revenues:		
Recycling income	\$ 153,499	\$ 36,950
Waste collection	112,203	130,943
Miscellaneous	262	3,515
Total operating revenues	265,964	171,408
Operating expenses:		
Payroll	501,558	365,399
Depreciation	226,744	223,135
Recycling	101,596	31,296
Fuel	92,705	70,214
Repairs and maintenance	56,081	10,454
Professional and contractual services	17,507	8,364
Office supplies	12,499	11,276
Meetings and entertainment	11,722	6,764
Utilities and communication	11,594	10,784
Travel	10,390	1,070
Taxes and licenses	5,895	4,205
Leases	4,850	-
Insurance	2,460	3,378
Advertising	1,046	1,144
Waste collection	729	39,416
Miscellaneous	4,897	5,758
Total operating expenses	1,062,273	792,657
Operating loss	(796,309)	(621,249)
Nonoperating revenues (expenses), net:		
Contributions from RepMar	518,214	472,018
Interest expense	-	(10,458)
Total nonoperating revenues (expenses), net	518,214	461,560
Loss before capital contributions	(278,095)	(159,689)
Capital contributions:		
RepMar	456,995	650,270
Government of Japan	-	265,061
Total capital contributions	456,995	915,331
Change in net position	178,900	755,642
Net position at beginning of year	1,645,571	889,929
Net position at end of year	\$ 1,824,471	\$ 1,645,571

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY
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Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from customers	\$ 249,997	\$ 152,878
Cash payments to suppliers for goods and services	(308,440)	(210,995)
Cash payments to employees for services	(522,589)	(359,757)
Net cash used in operating activities	(581,032)	(417,874)
Cash flows from noncapital financing activities:		
Net repayments under bank loan arrangement	-	(33,635)
Interest paid on bank loan	-	(2,021)
Other interest and penalties paid	-	(8,437)
Operating subsidy received from RepMar	518,214	472,018
Net cash provided by noncapital financing activities	518,214	427,925
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(60,777)	(84,743)
Capital grants received from RepMar	456,995	-
Net cash provided by (used in) capital and related financing activities	396,218	(84,743)
Net change in cash	333,400	(74,692)
Cash at beginning of year	109,340	184,032
Cash at end of year	\$ 442,740	\$ 109,340
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (796,309)	\$ (621,249)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	226,744	223,135
Decrease (increase) in assets:		
Receivables	(15,967)	(18,530)
Prepayments	-	24,591
Other current assets	6,301	(9,591)
Increase (decrease) in liabilities:		
Accounts payable	11,411	4,912
Payable to affiliates	7,699	(26,784)
Payroll and other liabilities	(20,911)	5,642
Net cash used in operating activities	\$ (581,032)	\$ (417,874)
Summary of noncash financing activities:		
Payments made by RepMar for the Jenrok landfill design:		
Capital grant from RepMar	-	\$ 650,270
Acquisition of capital assets	-	(650,270)
	\$ -	\$ -
Equipment received from Japan Government:		
Capital grant from Japan Government	\$ -	\$ 265,061
Acquisition of capital assets	-	(265,061)
	\$ -	\$ -
Purchased of equipment received during the year:		
Deposit on acquisition of capital assets	\$ -	\$ 51,284
Acquisition of capital assets	-	(51,284)
	\$ -	\$ -

See accompanying notes to financial statements.

MAJURO ATOLL WASTE COMPANY
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Notes to Financial Statements
September 30, 2018 and 2017

(1) Organization

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

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

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

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

(2) Summary of Significant Accounting Policies

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

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34*, establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

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

- Net investment in capital assets: capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted: Nonexpendable net position subject to externally imposed stipulations that require MAWC to maintain such permanently. As of September 30, 2018 and 2017, 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, 2018 and 2017, MAWC has expendable net position amounting to \$399,626 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
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Notes to Financial Statements
September 30, 2018 and 2017

(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.

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, 2018 and 2017, the carrying amounts of cash were \$442,740 and \$109,340, respectively, and the corresponding bank balances were \$437,954 and \$120,718, respectively. Of the bank balances, \$436,761 and \$79,003, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018 and 2017, bank deposits in the amount of \$250,000 and \$79,003, respectively, were FDIC insured. Bank deposits of \$1,193 and \$41,715, respectively, are maintained in a financial institution not subject to depository insurance. MAWC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. MAWC has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

Receivables

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

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

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Prepayments

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

Property and Equipment

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Taxes

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

New Accounting Standards

During the year ended September 30, 2018, MAWC implemented the following pronouncements:

- GASB 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.
- GASB 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.

MAJURO ATOLL WASTE COMPANY
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Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

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

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

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

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Receivables

Receivables at September 30, 2018 and 2017, consist of the following:

	<u>2018</u>	<u>2017</u>
Trade	\$ 54,611	\$ 55,064
Affiliates	<u>58,910</u>	<u>42,490</u>
	113,521	97,554
Less allowance for doubtful accounts	<u>(56,126)</u>	<u>(56,126)</u>
	\$ <u>57,395</u>	\$ <u>41,428</u>

(4) Capital Assets

Capital asset activity for the years ended September 30, 2018 and 2017 is as follows:

	2018			Balance at September 30, 2018
	Balance at October 1, 2017	Additions	Reclass/ Disposals	
Depreciable capital assets:				
Office equipment	\$ 14,005	\$ 1,470	\$ -	\$ 15,475
Recycling equipment	628,422	5,562	-	633,984
Truck and heavy equipment	913,603	42,990	-	956,593
Office building	13,471	-	-	13,471
Recycle center	124,779	2,694	-	127,473
Waste segregation structure	47,423	-	-	47,423
Waste collection equipment	<u>810,112</u>	<u>-</u>	<u>-</u>	<u>810,112</u>
	2,551,815	52,716	-	2,604,531
Less accumulated depreciation	<u>(1,848,395)</u>	<u>(226,744)</u>	<u>-</u>	<u>(2,075,139)</u>
	703,420	(174,028)	-	529,392
Nondepreciable capital assets:				
Construction in progress	<u>903,552</u>	<u>8,061</u>	<u>-</u>	<u>911,613</u>
	\$ <u>1,606,972</u>	\$ <u>(165,967)</u>	\$ <u>-</u>	\$ <u>1,441,005</u>

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

Notes to Financial Statements
September 30, 2018 and 2017

(4) Capital Assets, Continued

	2017			Balance at September 30, 2017
	Balance at October 1, 2016	Additions	Reclass/ Disposals	
Depreciable capital assets:				
Office equipment	\$ 12,005	\$ 2,000	\$ -	\$ 14,005
Recycling equipment	238,664	389,758	-	628,422
Truck and heavy equipment	913,603	-	-	913,603
Office building	13,471	-	-	13,471
Recycle center	-	124,779	-	124,779
Waste segregation structure	47,423	-	-	47,423
Waste collection equipment	<u>810,112</u>	<u>-</u>	<u>-</u>	<u>810,112</u>
	2,035,278	516,537	-	2,551,815
Less accumulated depreciation	<u>(1,625,260)</u>	<u>(223,135)</u>	<u>-</u>	<u>(1,848,395)</u>
	410,018	293,402	-	703,420
Nondepreciable capital assets:				
Construction in progress	<u>368,731</u>	<u>659,600</u>	<u>(124,779)</u>	<u>903,552</u>
	<u>\$ 778,749</u>	<u>\$ 953,002</u>	<u>\$ (124,779)</u>	<u>\$ 1,606,972</u>

During the year ended September 30, 2017, MAWC received recycling equipment at a cost of \$265,061 from the Government of Japan.

As of September 30, 2018 and 2017, construction in progress includes certain capitalized costs of \$903,552, associated with the new Jenrok landfill. Construction of the landfill is currently on hold due to insufficient funding. Management believes that continuation of the landfill construction is dependent upon funding being made available by RepMar.

(5) Risk Management

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

(6) 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, 2018 and 2017 are as follows:

	2018			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshall's Energy Company, Inc.	\$ 9,169	\$ 6,722	\$ 2,484	\$ 1,506
Marshall Islands Social Security Administration	288	46,228	72	25,519
College of the Marshall Islands	4,296	-	6,527	-
Marshall Islands National Telecommunications Authority	90	3,719	54	345
RepMar	37,126	5,895	43,784	3,261
Other	<u>14,460</u>	<u>306</u>	<u>5,989</u>	<u>-</u>
	<u>\$ 65,429</u>	<u>\$ 62,870</u>	<u>\$ 58,910</u>	<u>\$ 30,631</u>

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

Notes to Financial Statements
September 30, 2018 and 2017

(6) Related Party Transactions, Continued

	2017			
	Revenues	Expenses	Receivables	Payables
Marshall's Energy Company, Inc.	\$ 11,321	\$ 7,451	\$ 4,530	\$ 476
Marshall Islands Social Security Administration	288	37,316	48	19,312
College of the Marshall Islands	4,691	-	4,110	-
Marshall Islands National Telecommunications Authority	5	2,167	54	967
RepMar	20,708	4,887	27,687	2,177
Other	<u>16,052</u>	<u>1,531</u>	<u>6,061</u>	<u>-</u>
	<u>\$ 53,065</u>	<u>\$ 53,352</u>	<u>\$ 42,490</u>	<u>\$ 22,932</u>

MAWC received operating subsidies from RepMar during the years ended September 30, 2018 and 2017, as follows:

	2018	2017
Compact Environment Sector Grant	\$180,766	\$ 319,220
General Fund	<u>337,448</u>	<u>152,798</u>
	<u>\$ 518,214</u>	<u>\$ 472,018</u>

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

During the year ended September 30, 2018, MAWC received Republic of China capital contributions from RepMar in the amount of \$456,995 for the purpose of constructing the Laura Transfer Center. Of this amount, \$399,626 remains unexpended at September 30, 2018 and, accordingly, is restricted within net position.

(7) Contingency

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, 2018 and 2017 of \$796,309 and \$621,249, respectively. Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain MAWC as a going concern. Although RepMar has provided funding in the past, MAWC does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of MAWC's operations is dependent upon the future financial support of RepMar, deferment in payment of certain liabilities, and/or significant improvements in operations. Further, the construction of the Jenrok landfill has been delayed due to a lack of funds and is awaiting infrastructure funding from RepMar to complete construction. Management believes that the infrastructure funding from RepMar is more likely than not to be made available. If RepMar does not complete the related construction, the carrying values of the related assets would be materially impacted.

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

Notes to Financial Statements
September 30, 2018 and 2017

(7) Contingency, Continued

Going Concern, Continued

In view of these matters, realization of the related assets in the accompanying statement of net position at September 30, 2018, is dependent upon continued operations of MAWC, which, in turn, is dependent upon MAWC's ability to provide service to its customers and the success of future operations. Management believes that actions presently being undertaken to revise MAWC's operating requirements, including the generation of positive cash flows from operations, and increasing the customer base, provide the opportunity for MAWC to continue as a going concern. For the year ending September 30, 2019, RepMar appropriated \$404,030 to MAWC for the purpose of funding operations.

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

Board of Directors
Majuro Atoll Waste Company:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Majuro Atoll Waste Company (MAWC), a component unit of the Republic of the Marshall Islands, which comprise the statement of net position as of September 30, 2018, 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 May 8, 2019. Our report included emphasis-of-matter paragraphs regarding going concern and an 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.

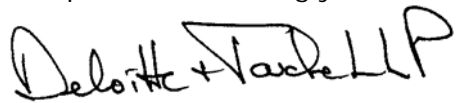
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MAWC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

May 8, 2019

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

Unresolved Prior Year Findings
Year Ended September 30, 2018

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