

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

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

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**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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

Years Ended September 30, 2019 and 2018  
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	3
III. FINANCIAL STATEMENTS:	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
IV. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	20
Schedule of Findings and Responses	22
Unresolved Prior Year Findings	23

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Majuro Atoll Waste Company:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Majuro Atoll Waste Company (MAWC), a component unit of the Republic of the Marshall Islands (RepMar), which comprise the statements of net position as of September 30, 2019 and 2018, 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 MAWC as of September 30, 2019 and 2018, 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 Matters**

### *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.

### *Uncertainty*

As discussed in Note 7 to the financial statements, capitalized design and engineering costs were impaired as the Jenrok landfill project site was re-assigned by RepMar for other purposes. It is uncertain how the current landfill site will be transferred to or be paid for by RepMar. The manner in which this will be resolved is uncertain and while there are various possibilities, ultimate resolution is currently unknown.

### *COVID-19*

As discussed in Note 8 to the financial statements, MAWC has determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. MAWC is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

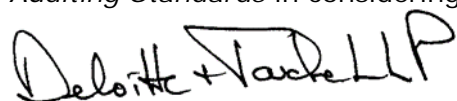
## **Other Matters**

### *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 July 20, 2020, 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.



July 20, 2020

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

Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

Overview

Majuro Atoll Waste Company (MAWC) management offers 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, 2019, with comparative information provided for 2018 and 2017. 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 (RepMar) currently under the Ministry of Works, Infrastructure and Utilities. MAWC is subsidized annually by the RMI-US Compact 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 RepMar government. 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 an eight Board of Directors, chaired by the Minister of Works, Infrastructure and Utilities with members from Majuro Atoll Local Government (MALGov), RMI Environmental Protection Authority (EPA), College of Marshall Islands (CMI), Tourism and Hospitality Community Association (TAHCA), Chamber of Commerce (COC), Ministry of Finance, Banking and Postal Service (MOFBPS) and Office of Environmental Planning and Policy Coordination (OEPPC), managed by 58 employees with the leadership of the General Manager.

Operational and Financial Performance

MAWC's results of operations for FY 2019 have increased its net operating loss by \$830,757 (or 104.3%) from \$796,309 in 2018 to \$1,627,066 in 2019. Factors that contributed to the net unfavorable results for 2019 are attributed to the increase in operating expenses by \$1,698,875 (or 159.9%) from \$1,062,273 in 2018 to \$2,761,148 in 2019 offset by an increase in the total net operating revenues by \$868,118 (or 326.4%) from \$265,964 in 2018 to \$1,134,082 in 2019.

Major contributors to the increase in operating revenues were the increase of revenue from recycling activities and miscellaneous revenue offset by the decrease in waste bin service collection revenue. The increase of operating expenses was attributed an impairment loss of \$903,552 associated with the Jenrok landfill project as well as the increase of employees for new the Laura Transfer Station and Container Deposit Legislation (CDL) recycling, additional costs incurred to service Airport to Laura, land lease, repairs and maintenance of equipment and facility, employees training, donations, new trucks registration & permits and import taxes for equipment parts.

**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 assets over time typically indicates an improvement in financial condition.

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

Management's Discussion and Analysis, Continued  
Years Ended September 30, 2019 and 2018

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

**Summary Statements of Net Position**  
As of September 30

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
<b>Assets:</b>					
Current and other assets	\$ 128,989	\$ 504,925	\$ (375,936)	(74.5)%	\$ 161,859
Capital assets	<u>598,692</u>	<u>1,441,005</u>	<u>(842,313)</u>	(58.5)%	<u>1,606,972</u>
Total assets	<u>727,681</u>	<u>1,945,930</u>	<u>(1,218,249)</u>	(62.6)%	<u>1,768,831</u>
<b>Liabilities:</b>					
Current and other liabilities	<u>129,850</u>	<u>121,459</u>	<u>8,391</u>	6.9%	<u>123,260</u>
<b>Net position:</b>					
Net investment in capital assets	598,692	1,441,005	(842,313)	(58.5)%	1,606,972
Restricted	-	399,626	(399,626)	(100.0)%	-
Unrestricted	<u>(861)</u>	<u>(16,160)</u>	<u>15,299</u>	(94.7)%	<u>38,599</u>
Total net position	<u>\$ 597,831</u>	<u>\$ 1,824,471</u>	<u>\$ (1,226,640)</u>	(67.2)%	<u>\$ 1,645,571</u>

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

**Summary Statements of Revenues, Expenses and Changes in Net Position**  
Years Ended September 30

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
<b>Operating:</b>					
Operating revenues	\$ 1,134,082	\$ 265,964	\$ 868,118	326.4%	\$ 171,408
Operating expenses	<u>2,761,148</u>	<u>1,062,273</u>	<u>1,698,875</u>	159.9%	<u>792,657</u>
Operating loss	<u>(1,627,066)</u>	<u>(796,309)</u>	<u>(830,757)</u>	104.3%	<u>(621,249)</u>
<b>Nonoperating:</b>					
Nonoperating revenues	400,426	518,214	(117,788)	(22.7)%	472,018
Nonoperating expenses	<u>-</u>	<u>-</u>	<u>-</u>		<u>10,458</u>
	<u>400,426</u>	<u>518,214</u>	<u>(117,788)</u>	(22.7)%	<u>461,560</u>
	(1,226,640)	(278,095)	(948,545)	341.1%	(159,689)
Capital contributions	<u>-</u>	<u>456,995</u>	<u>(456,995)</u>	(100.0)%	<u>915,331</u>
Change in net position	<u>\$ (1,226,640)</u>	<u>\$ 178,900</u>	<u>\$ (1,405,540)</u>	(785.7)%	<u>\$ 755,642</u>

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

Management's Discussion and Analysis, Continued  
Years Ended September 30, 2019 and 2018

MAWC's total assets have decreased by \$1,218,249 (or 62.6%) from \$1,945,930 in 2018 to \$727,681 in 2019. This was primarily due to the decrease in capital assets of \$842,313 (or 58.5%) from \$1,441,005 in 2018 to \$598,692 in 2019, cash of \$395,135 (or 89.3%) from \$442,740 in 2018 to \$47,605 in 2019 and decrease in prepayment and other current assets of \$3,290 (or 68.7%) from \$4,790 in 2018 to \$1,500 in 2019 offset by the increase in net receivables of \$22,489 (or 39.2%) from \$57,395 in 2018 to \$79,884 in 2019. MAWC's total capital assets decreased by \$842,313, which was mainly due to impairment of construction work in progress of \$903,552 associated with the Jenrok landfill project and current year depreciation amounting to \$143,839. This was offset by current year capital asset additions of \$205,461.

MAWC's total liabilities have increased by \$8,391 (or 6.9%) from \$121,459 in 2018 to \$129,850 in 2019. This increase was attributed to the decrease in accounts payable of \$4,260 (or 12%) from \$35,543 in 2018 to \$31,283 in 2019 offset by the increase in payable to affiliates of \$8,108 (or 26.5%) from \$30,631 in 2018 to \$38,739 in 2019, increase in payroll liabilities of \$4,495 (or 8.3%) from \$54,181 in 2018 to \$58,676 in 2019 and the increase in other current liabilities of \$48 (or 4.3%) from \$1,104 in 2018 to \$1,152 in 2019.

MAWC's total revenues (operating, non-operating and capital contributions) increased by \$293,335 (or 23.6%) from \$1,241,173 in 2018 to \$1,534,508 in 2019. This increase was attributed to the increase in operating income from recycling of \$889,485 (or 579.5%) from \$153,499 in 2018 to \$1,042,984 in 2019 and miscellaneous revenues of \$1,359 (or 518.7%) from \$262 in 2018 to \$1,621 in 2019 offset by the decrease in operating income from waste collection of \$22,726 (or 20.2%) from \$112,203 in 2018 to \$89,477 in 2019. Decrease in non-operating revenues was attributed to the decrease in contributions from RepMar of \$117,788 (or 22.7%) from \$518,214 in 2018 to \$400,426 in 2019. MAWC did not received capital grant in 2019.

MAWC's total operating expenses increased by \$1,698,875 (or 159.9%) from \$1,062,273 in 2018 to \$2,761,148 in 2019. This increase was attributed to the impairment loss in 2019 for Jenrok Landfill Project design and engineering costs amounting to \$903,552, the increase in recycling expenses of \$744,975 (or 733.3%) from \$101,596 in 2018 to 846,571 in 2019, payroll costs of \$167,150 (or 33.3%) from \$501,558 in 2018 to \$668,708 in 2019, professional and contractual services expenses of \$13,958 (or 79.7%) from \$17,507 in 2018 to \$31,465 in 2019, office supplies expense of \$1,873 (or 15%) from \$12,499 in 2018 to \$14,372 in 2019, meetings and entertainment expense of \$407 (or 3.5%) from \$11,722 in 2018 to \$12,129 in 2019, insurance expense of \$1,702 (or 69.2%) from \$2,460 in 2018 to \$4,162 in 2019 and miscellaneous expense of \$1,844 (or 37.7%) from \$4,897 in 2018 to \$6,741 in 2019 offset by the decrease in current year depreciation expense of \$82,905 (or 36.6%) from \$226,744 in 2018 to \$143,839 in 2019, fuel and oil expenses of \$4,815 (or 5.2%) from \$92,705 in 2018 to \$87,890 in 2019, repairs and maintenance expense of \$38,447 (or 68.6%) from \$56,081 in 2018 to \$17,634 in 2019, utilities and communication expense of \$1,399 (or 12.1%) from \$11,594 in 2018 to \$10,195 in 2019, taxes and licenses expense of \$526 (or 8.9%) from \$5,895 in 2018 to \$5,369 in 2019, leases of \$1,183 (or 24.4%) from \$4,850 to \$3,667 in 2019, travel expenses of \$6,728 (or 64.7%) from \$10,390 in 2018 to \$3,662 in 2019, advertising expense of \$236 (or 22.6%) from \$1,046 in 2018 to \$810 in 2019 and waste collection of \$729 from 2018.

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in MAWC's report on the audit of financial statements, which is dated May 8, 2019. Such Management Discussion and Analysis explains the major factors impacting the FY2018 financial statements and can be obtained from MAWC's Acting General Manager via the contact information on page 7.

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

Management's Discussion and Analysis, Continued  
Years Ended September 30, 2019 and 2018

**CAPITAL ASSETS AND LONG-TERM DEBT**

At the end of 2019, MAWC has investments in capital assets, net of accumulated depreciation, of \$598,692 a decrease of \$842,313 (or 58.5%) from 2018. As mentioned earlier, this decrease is the result of impairment of non-depreciable capital assets amounting to \$903,552 and current year depreciation amounting to \$143,839. This was offset by current year additions to non-depreciable and depreciable capital assets amounting to \$205,461. The capital asset additions in FY2019 pertain to various office equipment, Laura transfer station, forklift, dump truck, crane truck, long bed and flatbed truck.

A summary of MAWC's capital assets is presented below:

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Office equipment	\$ 12,860	\$ 15,475	\$ (2,615)	(16.9)%	\$ 14,005
Recycling equipment	480,891	633,984	(153,093)	(24.1)%	628,422
Truck and heavy equipment	487,984	956,593	(468,609)	(49.0)%	913,603
Office building	13,471	13,471	-	0.0%	13,471
Recycle center	127,473	127,473	-	0.0%	124,779
Waste segregation structure	47,423	47,423	-	0.0%	47,423
Waste collection equipment	405,829	810,112	(404,283)	(49.9)%	810,112
	1,575,931	2,604,531	(1,028,600)	(39.5)%	2,551,815
Accumulated depreciation	(1,035,450)	(2,075,139)	1,039,689	(50.1)%	(1,848,395)
	540,481	529,392	11,089	2.1%	703,420
CWIP	58,211	911,613	(853,402)	(93.6)%	903,552
	<u>\$ 598,692</u>	<u>\$ 1,441,005</u>	<u>\$ (842,313)</u>	(58.5)%	<u>\$ 1,606,972</u>

Capital assets are summarized in note to the financial statements. Please refer to Note 5 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 2019 Budget

MAWC received \$400,426 financial subsidy from RepMar's general fund and has a total operating revenue of \$1,134,082, which was higher than the anticipated income of \$190,182. The increase in operation revenue is primarily caused by the revenues from CDL recycling.



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

Management's Discussion and Analysis, Continued  
Years Ended September 30, 2019 and 2018

Fiscal Year 2020 Budget

MAWC operational funding for FY2020 remain the same from 2019, amounting to \$404,030 that will be coming from the RMI general fund plus the anticipated operating revenue of \$1,048,660 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 received a Japan Grassroots grant of \$82,480 to purchase wood chipper to support Laura Transfer Station activities.

Furthermore, 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.

The current COVID-19 pandemic being experienced worldwide has not yet reached the Marshall Islands and as such is not expected to directly impact day-to-day operations. The company does expect potential negative impact to the CDL recycling program and funding from the RMI government in the event that COVID-19 is experienced locally. If such occurs, the company will await instructions from the RMI Disaster Committee in order to address the situation.

Contact Us

Questions associated with the above MD&A may be sent by post addressed to Halston deBrum, General Manager, P.O. Box 3596, Majuro, MH 96960, or via email to [wanidebrum@gmail.com](mailto:wanidebrum@gmail.com) or call mobile no. (692)456-4895.

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

Statements of Net Position  
September 30, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash	\$ 47,605	\$ 442,740
Receivables, net	79,884	57,395
Other current assets	<u>1,500</u>	<u>4,790</u>
Total current assets	<u>128,989</u>	<u>504,925</u>
Noncurrent assets:		
Capital assets:		
Nondepreciable	58,211	911,613
Depreciable capital assets, net of accumulated depreciation	<u>540,481</u>	<u>529,392</u>
Total noncurrent assets	<u>598,692</u>	<u>1,441,005</u>
	<u>\$ 727,681</u>	<u>\$ 1,945,930</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 31,283	\$ 35,543
Payable to affiliates	38,739	30,631
Payroll liabilities	58,676	54,181
Other current liabilities	<u>1,152</u>	<u>1,104</u>
Total liabilities	<u>129,850</u>	<u>121,459</u>
Contingencies		
Net position:		
Net investment in capital assets	598,692	1,441,005
Restricted	-	399,626
Unrestricted	<u>(861)</u>	<u>(16,160)</u>
Total net position	<u>597,831</u>	<u>1,824,471</u>
	<u>\$ 727,681</u>	<u>\$ 1,945,930</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended September 30, 2019 and 2018

	2019	2018
Operating revenues:		
Recycling Fund revenues	\$ 943,031	\$ 107,816
Other recycling revenue	99,953	45,683
Waste collection	89,477	112,203
Miscellaneous	1,621	262
Total operating revenues	1,134,082	265,964
Operating expenses:		
Impairment loss	903,934	-
Recycling	846,571	101,596
Payroll	668,708	501,558
Depreciation	143,839	226,744
Fuel	87,890	92,705
Professional and contractual services	31,465	17,507
Repairs and maintenance	17,634	56,081
Office supplies	14,372	12,499
Meetings and entertainment	12,129	11,722
Utilities and communication	10,195	11,594
Taxes and licenses	5,369	5,895
Insurance	4,162	2,460
Leases	3,667	4,850
Travel	3,662	10,390
Advertising	810	1,046
Waste collection	-	729
Miscellaneous	6,741	4,897
Total operating expenses	2,761,148	1,062,273
Operating loss	(1,627,066)	(796,309)
Nonoperating revenues:		
Contributions from RepMar	400,426	518,214
Loss before capital contributions	(1,226,640)	(278,095)
Capital contributions:		
RepMar	-	456,995
Change in net position	(1,226,640)	178,900
Net position at beginning of year	1,824,471	1,645,571
Net position at end of year	\$ 597,831	\$ 1,824,471

See accompanying notes to financial statements.

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

Statements of Cash Flows  
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from Recycling Fund	\$ 933,084	\$ 91,227
Cash received from customers	178,509	158,770
Cash payments to suppliers for goods and services	(1,042,481)	(308,440)
Cash payments to employees for services	(664,213)	(522,589)
Net cash used for operating activities	(595,101)	(581,032)
Cash flows from noncapital financing activities:		
Operating subsidy received from RepMar	400,426	518,214
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(200,460)	(60,777)
Capital grants received from RepMar	-	456,995
Net cash provided by (used in) capital and related financing activities	(200,460)	396,218
Net change in cash	(395,135)	333,400
Cash at beginning of year	442,740	109,340
Cash at end of year	\$ 47,605	\$ 442,740
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (1,627,066)	\$ (796,309)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	143,839	226,744
Impairment loss	903,934	-
Decrease (increase) in assets:		
Receivables	(22,489)	(15,967)
Other current assets	3,290	6,301
Increase (decrease) in liabilities:		
Accounts payable	(9,260)	11,411
Payable to affiliates	8,108	7,699
Payroll and other liabilities	4,543	(20,911)
Net cash used for operating activities	\$ (595,101)	\$ (581,032)

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2019 and 2018

(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 an eight-member Board of Directors as follows:

- The Minister of Ministry of Works, Infrastructure and Utilities.
- 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 nominations by the Environmental Protection Authority.
- One member from a list of two or more nominations by the College of Marshall Islands.
- One member from a list of two or more nominations by the Tourism and Hospitality Community Association.
- One member from a list of two or more nominations by the Chamber of Commerce.
- One member from a list of two or more nominations by the Ministry of Finance, Banking and Postal Service.
- One member from a list of two or more nominations by the Office of Environmental Planning and Policy Coordination.

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 related debt, plus 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, 2019 and 2018, MAWC does not have nonexpendable restricted net position.
- Restricted: 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, MAWC has expendable restricted net position of \$399,626 for construction of the Laura Transfer Center project. This project was completed and placed into service during the year ended September 30, 2019.

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

Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

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

When both restricted and unrestricted resources are available for use for the same purpose, it is MAWC's policy to use unrestricted resources first, then restricted resources as they are needed.

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.

Revenue Recognition

MAWC considers recycling and waste collection revenues and costs directly related to such revenues to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating. Capital grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. All expenses related to operating MAWC are reported as operating expenses.

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, 2019 and 2018, the carrying amounts of cash were \$47,605 and \$442,740, respectively, and the corresponding bank balances were \$57,202 and \$437,954, respectively. Of the bank balances, \$55,395 and \$436,761, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2019 and 2018, bank deposits in the amount of \$55,395 and \$250,000, respectively, were FDIC insured. Bank deposits of \$1,807 and \$1,193, 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.

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

Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Receivables

All receivables are due from government agencies, businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Management determines the adequacy of the allowance for uncollectible accounts based upon review of the aged accounts receivable. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on the specific identification method.

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.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick benefits. As of September 30, 2019 and 2018, the accumulated vacation leave liability amounted to \$28,163 and \$27,244, respectively, and is included within the statements of net position as payroll liabilities.

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.

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

Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2019, MAWC implemented the following pronouncements:

- GASB 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.
- GASB 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 implementation of these statements did not have a material effect on the accompanying 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 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.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. 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, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

Reclassifications

Certain balances in the 2018 presentation has been reclassified to conform to the 2019 presentation. These reclassifications had no impact on operating loss, net position or cash flows as previously reported.

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) Risk Management

MAWC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. MAWC has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims have not exceeded this commercial coverage in any of the past three years. For other risks of loss to which it is exposed, MAWC has elected not to purchase commercial insurance. Instead, MAWC believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from MAWC's risk management activities for the past three years.

(4) Receivables

Receivables at September 30, 2019 and 2018, consist of the following:

	<u>2019</u>	<u>2018</u>
Trade	\$ 53,162	\$ 54,611
Affiliates	<u>82,848</u>	<u>58,910</u>
	136,010	113,521
Less allowance for doubtful accounts	<u>(56,126)</u>	<u>(56,126)</u>
	<u>\$ 79,884</u>	<u>\$ 57,395</u>

As of September 30, 2019 and 2018, receivables from affiliates includes amounts due from the Recycling Fund of \$26,536 and \$16,589, respectively, which is maintained by the Ministry of Finance, Banking and Postal Service.

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

Notes to Financial Statements  
September 30, 2019 and 2018

(5) Capital Assets

Capital asset activity for the years ended September 30, 2019 and 2018 is as follows:

	2019			
	Balance at October <u>1, 2018</u>	<u>Additions</u>	Reclass/ Disposals/ <u>Impairment</u>	Balance at September <u>30, 2019</u>
Depreciable capital assets:				
Office equipment	\$ 15,475	\$ 7,951	\$ (10,566)	\$ 12,860
Recycling equipment	633,984	15,000	(168,093)	480,891
Truck and heavy equipment	956,593	132,360	(600,969)	487,984
Office building	13,471	-	-	13,471
Recycle center	127,473	-	-	127,473
Waste segregation structure	47,423	-	-	47,423
Waste collection equipment	<u>810,112</u>	<u>-</u>	<u>(404,284)</u>	<u>405,828</u>
	2,604,531	155,311	(1,183,911)	1,575,931
Less accumulated depreciation	<u>(2,075,139)</u>	<u>(143,839)</u>	<u>1,183,528</u>	<u>(1,035,450)</u>
	529,392	11,472	(383)	540,481
Nondepreciable capital assets:				
Construction in progress	<u>911,613</u>	<u>50,150</u>	<u>(903,552)</u>	<u>58,211</u>
	<u>\$ 1,441,005</u>	<u>\$ 61,622</u>	<u>\$ (903,935)</u>	<u>\$ 598,692</u>
	2018			
	Balance at October <u>1, 2017</u>	<u>Additions</u>	Reclass/ Disposals	Balance at September <u>30, 2018</u>
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>

During the year ended September 30, 2019, MAWC derecognized fully depreciated capital assets with total costs amounting to \$1,160,912 and impaired a truck and heavy equipment with a cost and accumulated depreciation amounting to \$22,999 and \$22,616, respectively.

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

Notes to Financial Statements  
September 30, 2019 and 2018

(5) Capital Assets, Continued

As of September 30, 2018, construction in progress includes certain capitalized design and engineering costs of \$903,552, associated with the new Jenrok landfill project. Construction of the landfill was on hold due to insufficient funding. During the year ended September 30, 2019, the capitalized design and engineering costs were impaired as the project site was re-assigned by RepMar for other purposes. Costs associated with this project were funded by U.S. Department of the Interior Compact Public Infrastructure Sector grant funds.

(6) Related Party Transactions

MAWC is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the RMI Environmental Protection Authority. 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, 2019 and 2018 are as follows:

	2019			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshall's Energy Company, Inc.	\$ 486	\$ 29,916	\$ 2,970	\$ 580
Marshall Islands Social Security Administration	288	63,389	120	33,216
College of the Marshall Islands	2,758	280	7,974	-
Marshall Islands National Telecommunications Authority	5	1,672	69	284
RepMar	12,755	4,880	64,149	4,659
Other	<u>13,282</u>	<u>2,052</u>	<u>7,565</u>	<u>-</u>
	<u>\$ 29,574</u>	<u>\$ 102,188</u>	<u>\$ 82,848</u>	<u>\$ 38,739</u>
	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, 2019 and 2018

(6) Related Party Transactions, Continued

In accordance with the Styrofoam Cups and Plates, and Plastic Products Prohibition and Container Deposit Act 2016, RepMar established a Recycling Program for the purpose of creating a self-supported, safe and efficient system of disposal of recyclable beverage containers in the Marshall Islands. A deposit fee is levied on each deposit beverage container manufactured in or imported into the Marshall Islands, which fees are deposited into the Recycling Fund maintained by the Ministry of Finance, Banking and Postal Service. Payments are made from the Recycling Fund to compensate redemption centers at which empty beverage containers may be returned for a payment in return of 5 cents per item. MAWC has entered into an agreement with the RMI Environmental Protection Authority whereby MAWC has agreed to act as a collection and processing center for empty beverage containers. In return, MAWC shall be paid 6 cents per item from the Recycling Fund. During the years ended September 30, 2019 and 2018, MAWC received distributions of \$943,031 and \$107,816, respectively, from the Recycling Fund.

MAWC received operating subsidies from RepMar during the years ended September 30, 2019 and 2018, as follows:

	<u>2019</u>	<u>2018</u>
Compact Environment Sector Grant	\$ -	\$ 180,766
General Fund	<u>400,426</u>	<u>337,448</u>
	<u>\$ 400,426</u>	<u>\$ 518,214</u>

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. As of September 30, 2018, MAWC has restricted net position of \$399,626 representing unexpended construction costs associated with the Laura Transfer Center project. This project was completed and placed into service during the year ended September 30, 2019.

(7) Contingencies

Going Concern

The accompanying financial statements have been prepared in accordance 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, 2019 and 2018 of \$1,627,066 and \$796,309, 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 the related assets in the accompanying statement of net position at September 30, 2019, 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, 2020, RepMar appropriated \$404,030 to MAWC for the purpose of funding operations.

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

Notes to Financial Statements  
September 30, 2019 and 2018

(7) Contingencies, Continued

Federal Grants

MAWC participates in a number of U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Questioned costs of \$903,552 have been identified in 2019 for which related Single Audit Reports were issued in prior years. The ultimate disposition of the questioned costs can be determined only by the final action of the grantor agency. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Jenrok Landfill

Capitalized design and engineering costs were impaired as the project site was re-assigned by RepMar for other purposes. It is uncertain how the current landfill site will be transferred to or be paid for by RepMar. MAWC is currently negotiating with RepMar for a final determination insofar as resolution of this matter.

(8) Subsequent Event

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of July 20, 2020, there have been no confirmed cases of COVID-19 in the Marshall Islands. MAWC has determined that should the pandemic reach the Marshall Islands, it may negatively impact MAWC's programs and activities due to MAWC's dependency on RepMar appropriations. The effect of the pandemic to RepMar is also uncertain and future available funding through RepMar appropriations may be limited. Therefore, while MAWC expects this matter to potentially cause disruptions to operations, the related financial impact cannot be reasonably estimated at this time.

**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, 2019, 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 July 20, 2020.

### **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**

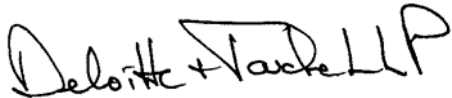
As part of obtaining reasonable assurance about whether MAWC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 item 2019-001.

## MAWC's Response to Findings

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

## Purpose of this Report

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

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

July 20, 2020

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

Schedule of Findings and Responses  
Year Ended September 30, 2019

Finding No.: 2019-001  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories – Compact of Free Association, As Amended, Compact Sector Grants  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$903,552

Criteria: Federal expenditures should be in accordance with allowable costs/cost principle requirements and should be directly related to, and in accordance with, program intent and objectives.

Condition: The construction in progress account includes capitalized costs amounting to \$903,552 for the design and engineering phase of the Jenrok landfill project. Capitalized costs of \$650,271, \$74,438 and \$178,843, which were paid directly by RepMar in fiscal years 2017, 2016 and 2015, respectively, were funded by the Compact Public Sector Infrastructure Grant (CFDA 15.875).

No related construction costs were incurred after September 30, 2017 for the landfill project as the continuation of the landfill was dependent upon funding made available by RepMar. On May 13, 2019, RepMar re-assigned the purpose of the Jenrok site to other non-landfill related projects. The landfill project has not materialized based on the original plan and the ultimate purpose of the landfill design was not achieved. Therefore, original federal costs expended on the landfill project do not appear to be for the purpose represented in the applicable grant applications.

Cause: The cause of the condition may be lack of coordination with the federal funding agency.

Effect: The capitalized design and engineering costs appear impaired as MAWC cannot proceed with the construction of the landfill project due to re-assignment of the underlying site. The related project design and engineering cannot be re-used as the specifications are solely intended based on the original project site. Therefore, \$903,552 of related federal expenditures are questioned as a result of this matter.

Recommendation: We recommended adjustment to recognize the impairment of capitalized project and design costs and resolution of the questioned costs with the affected federal agency.

Views of Auditee and Planned Corrective Actions: The Jenrok Landfill Project was accepted and approved to proceed to divert the huge amount of trash at Batkan-Jable dump site after several consultation meetings between RMI and US competent authorities to discuss the plan of the new landfill site. MAWC management did not take part in the decision to change the plan from the continuation process to the Jenrok Landfill Site. It was a decision made by the Cabinet. All the time spent and expenditure made were following proper procedures and guidelines. For corrective action, MAWC will coordinate with finance for the communication with US-DOI.

The completed design for the Jenrok Landfill Project can be reused in another site provided a new Environmental Impact Assessment (EIA) and Public Consultations are carried out on the proposed site per Final Disposal Site Plan (Candidate Site 1). The site is similar in area and topographic condition as the original site, we therefore confirm that the design and specifications remain usable.



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

Unresolved Prior Audit Findings  
Year Ended September 30, 2019

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