

**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, 2013 AND 2012**

# MAJURO ATOLL WASTE COMPANY

Years Ended September 30, 2013 and 2012  
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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, 2013 and 2012, 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, 2013 and 2012, 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.

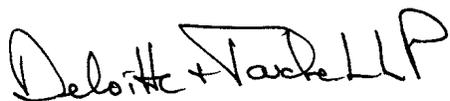
## ***Other Matters***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2014, on our consideration of MAWC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MAWC's internal control over financial reporting and compliance.

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

June 5, 2014

## MAJURO ATOLL WASTE COMPANY

### Management's Discussion and Analysis Years Ended September 30, 2013 and 2012

#### 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, 2013, with comparative information provided for 2012. We encourage the readers to consider the information presented here in conjunction with additional information that we have furnished in MAWC's financial statements.

MAWC is a state-owned enterprise of the Republic of the Marshall Islands currently under the umbrella of the RMI Environmental Protection Authority. MAWC is subsidized by the RMI-US Compact of Free Association with a basic annual appropriation of \$325,000 in which it is required by law to follow the usage agreement as outlined on its sub-award agreement with the RMI Finance Department. Other sources of funds are provided by grants from government and private institutions, and from MAWC's own revenue from operations.

MAWC is engaged to collect and dispose solid waste in Majuro Atoll. It is governed by a five-member Board of Directors, chaired by Secretary of Ministry of Public Works and managed by 39 employees with the leadership of the General Manager.

#### Operational and Financial Performance

MAWC's results of operations for 2013 have decreased its net operating loss by \$69,454 (or 9%) from \$796,576 in 2012 to \$727,122 in 2013. Factors that contributed to better results for 2013 are attributed to a decrease in operating expenses by \$104,865 (or 11%) from \$950,687 in 2012 to \$845,822 in 2013 offset by a decline in operating revenues by \$35,411 (or 23%) from \$154,111 in 2012 to \$118,700 in 2013. Major contributors to the decrease in operating revenues were the decrease of income from recycled materials and equipment rentals and the increment of waste collection income. For operating expenses, depreciation has increased by \$18,335 (or 10%) due to newly acquired equipments. Payroll, fuel, utilities and communication, supplies, professional and contractual services, travel, other waste collection, and miscellaneous expenses have also increased accordingly.

#### **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>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 74,231	\$ 67,726	\$ 67,366
Capital assets	<u>1,126,121</u>	<u>672,778</u>	<u>856,738</u>
Total assets	\$ <u>1,200,352</u>	\$ <u>740,504</u>	\$ <u>924,104</u>
Current liabilities	\$ 158,252	\$ 90,239	\$ 127,205
Long-term debt	<u>93,561</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>251,813</u>	<u>90,239</u>	<u>127,205</u>

## MAJURO ATOLL WASTE COMPANY

### Management's Discussion and Analysis, Continued Years Ended September 30, 2013 and 2012

Net position:			
Net investment in capital assets	1,126,121	672,778	856,738
Restricted	-	61,801	-
Unrestricted	<u>(177,582)</u>	<u>(84,314)</u>	<u>(59,839)</u>
Total net position	<u>948,539</u>	<u>650,265</u>	<u>796,899</u>
Total liabilities and net position	\$ <u>1,200,352</u>	\$ <u>740,504</u>	\$ <u>924,104</u>

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
Operating revenues	\$ 118,700	\$ 154,111	\$ 96,237
Non-operating revenues-grants	352,769	584,942	388,094
Capital grants	<u>672,627</u>	<u>65,000</u>	<u>525,979</u>
Total revenues	1,144,096	804,053	1,010,310
Expenses:			
Operating expenses	<u>845,822</u>	<u>950,687</u>	<u>765,926</u>
Change in net position	\$ <u>298,274</u>	\$ <u>(146,634)</u>	\$ <u>244,384</u>

MAWC's total assets are increased by \$459,848 (or 62%) from \$740,504 in 2012 to \$1,200,352 in 2013. This was due to increase in net receivables of \$22,701 (or 52%) from \$44,076 in 2012 to \$66,777 in 2013 offset by the decrease in cash of \$16,196 (or 75%) from \$21,650 in 2012 to \$5,454 in 2013 and the increase of capital assets of \$453,343 (or 67%) from \$672,778 in 2012 to \$1,126,121 in 2013. This increase in capital assets was due to current year depreciation expense of \$204,982 offset by asset additions of \$658,325. Total liabilities increased by \$161,574 from \$90,239 in 2012 to \$251,813 in 2013. This increase was attributed by the increase in accounts payable of \$13,982 (or 44%) from \$31,704 in 2012 to \$45,686 in 2013, increase in social security taxes payable of \$15,899 (or 58%) from \$27,410 in 2012 to \$43,309 in 2013 and the increase in payroll related liabilities of \$11,693 (or 39%) from \$30,261 in 2012 to \$41,954 in 2013 plus the long-term loan payable of \$120,000.

MAWC's total revenues are increased by \$340,043 (or 42%) from \$804,053 in 2012 to \$1,144,096 in 2013. This increase was primarily due to increase in capital grant of \$607,627 from \$65,000 in 2012 to \$672,627 in 2013 offset by the decrease of operating revenues of \$35,411 (23%) from \$154,111 in 2012 to \$118,700 in 2013 and decrease of contributions for operation of \$232,173 (or 40%) from \$584,942 in 2012 to \$352,769 in 2013. MAWC received a capital grant from government of Japan for \$114,733 for acquisition of equipment and total amount of \$910,663 from RepMar to fund the operation and purchase of equipments.

MAWC's total expenses are decreased by \$104,865 (or 11%) from \$950,687 in 2012 to \$845,822 in 2013. This decrease was attributable to the decrease in repairs and maintenance, recycling, shipping, taxes and licenses, insurance, and expense associated with the purchase of residential wheelie trash bins in 2012 offset by the increase in payroll, depreciation, fuel, utilities, communication, supplies, professional and contractual, travel, rental and other waste collection expenses.

## **MAJURO ATOLL WASTE COMPANY**

### **Management's Discussion and Analysis, Continued Years Ended September 30, 2013 and 2012**

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in MAWC's report on the audit of financial statements, which is dated June 6, 2013. Such Management Discussion and Analysis explains the major factors impacting the FY2012 financial statements and can be obtained from MAWC's General Manager via the contact information below.

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

At the end of 2013, MAWC has investments in capital assets, net of accumulated depreciation, of \$1,126,121 an increase of \$453,343 from 2012. As discussed earlier, this increase is the result of current year depreciation expense of \$204,982 offset by capital asset additions of \$658,325. These additions pertain to equipment. Capital assets are summarized in note 4 to the financial statements. Please refer to this note for additional information concerning capital assets.

At this time, MAWC has acquired a long-term debt of \$120,000. This long-term debt pertains to a bank loan applied to augment MAWC's operation expenses. Please refer to note 7 to the financial statements for additional information concerning long-term debt.

#### **ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES**

##### **Fiscal Year 2013 Budget**

MAWC received:

- ❖ \$325,000 operational funding from RepMar that was submitted from the Environmental Protection Authority (EPA) Budget Matrix 2012.
- ❖ \$650,000 capital and infrastructure funding that is intended for completion of seawall and for opening of new dump site at Jenrok in the amount of \$350,000 and \$300,000, respectively.
- ❖ Grant from Japan for \$114,733 to improve Majuro Waste Collection System

##### **Fiscal Year 2014 Budget**

MAWC operational funding for FY 2014 still at \$325,000 plus anticipated \$247,336 revenue and grants that aimed to attain the following six outputs/goals:

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

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

#### **Contact Us**

Questions associated with the above 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](mailto:jorelik.tibon1@gmail.com).

## MAJURO ATOLL WASTE COMPANY

### Statements of Net Position September 30, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash	\$ 5,454	\$ 21,650
Receivables, net	66,777	44,076
Other current assets	<u>2,000</u>	<u>2,000</u>
Total current assets	74,231	67,726
Property and equipment, net	<u>1,126,121</u>	<u>672,778</u>
	<u>\$ 1,200,352</u>	<u>\$ 740,504</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of loan payable	\$ 26,439	\$ -
Accounts payable	45,686	31,704
Social security taxes payable	43,309	27,410
Payroll liabilities	41,954	30,261
Other current liabilities	<u>864</u>	<u>864</u>
Total current liabilities	158,252	90,239
Loan payable, net of current portion	<u>93,561</u>	<u>-</u>
Total liabilities	<u>251,813</u>	<u>90,239</u>
Contingency		
Net position:		
Net investment in capital assets	1,126,121	672,778
Restricted	-	61,801
Unrestricted	<u>(177,582)</u>	<u>(84,314)</u>
Total net position	<u>948,539</u>	<u>650,265</u>
Total liabilities and net position	<u>\$ 1,200,352</u>	<u>\$ 740,504</u>

See accompanying notes to financial statements.

## MAJURO ATOLL WASTE COMPANY

### Statements of Revenue, Expenses, and Changes in Net Position Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Waste collection	\$ 79,626	\$ 76,331
Recycling income	55,449	63,139
Miscellaneous	2,324	14,641
Total operating revenues	137,399	154,111
Less provision for doubtful accounts	(18,699)	-
Total net operating revenues	118,700	154,111
Expenses:		
Payroll	419,873	418,241
Depreciation	204,982	186,647
Fuel	83,862	83,265
Repairs and maintenance	36,179	45,269
Recycling	27,875	41,988
Utilities and communication	16,780	14,492
Office supplies	8,756	7,965
Professional and contractual services	8,665	5,699
Taxes and licenses	8,514	14,389
Insurance	5,169	6,397
Travel	4,222	2,162
Advertising	678	845
Rental and other waste collection	300	-
Trash bins	-	113,032
Miscellaneous	19,967	10,296
Total operating expenses	845,822	950,687
Operating loss	(727,122)	(796,576)
Nonoperating revenues:		
Contributions from RepMar	352,769	468,411
Contributions from the Government of Japan	-	116,531
Total nonoperating revenues	352,769	584,942
Loss before capital contributions	(374,353)	(211,634)
Capital contributions:		
RepMar	557,894	65,000
Government of Japan	114,733	-
Total capital contributions	672,627	65,000
Change in net position	298,274	(146,634)
Net position at beginning of year	650,265	796,899
Net position at end of year	\$ 948,539	\$ 650,265

See accompanying notes to financial statements.

**MAJURO ATOLL WASTE COMPANY**

Statements of Cash Flows  
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	\$ 120,329	\$ 133,899
Cash paid to suppliers for goods and services	(191,086)	(366,156)
Cash paid to employees for services	(408,180)	(434,850)
Net cash used in operating activities	(478,937)	(667,107)
Cash flows from noncapital financing activities:		
Proceeds of commercial bank loan	120,000	-
Operating subsidy received from RepMar	328,439	533,411
Grant received from Japan Government	-	116,531
Net cash provided by noncapital financing activities	448,439	649,942
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(658,325)	(2,687)
Capital grants received from RepMar	557,894	-
Capital grants received from Government of Japan	114,733	-
Net cash provided by (used for) capital and related financing activities	14,302	(2,687)
Net change in cash	(16,196)	(19,852)
Cash at beginning of year	21,650	41,502
Cash at end of year	\$ 5,454	\$ 21,650
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (727,122)	\$ (796,576)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	204,982	186,647
Provision for bad debts	18,699	-
Increase in assets:		
Receivables	(17,070)	(20,212)
Increase (decrease) in liabilities:		
Accounts payable	13,982	(20,357)
Social security taxes payable	15,899	(22,337)
Payroll liabilities	11,693	5,728
Net cash used in operating activities	\$ (478,937)	\$ (667,107)

See accompanying notes to financial statements.

# MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2013 and 2012

## (1) Organization

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

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

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

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

## (2) Summary of Significant Accounting Policies

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

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

- Net investment in capital assets, net of related debt: capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted: Nonexpendable - Net position subject to externally imposed stipulations that require MAWC to maintain such permanently. As of September 30, 2013 and 2012, 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.

# MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2013 and 2012

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

Restricted expendable net position is comprised of the following:

	<u>2013</u>	<u>2012</u>
Compact of Free Association, Section 211(d) Infrastructure Sector – Solid Waste Disposal Project	\$ <u>      -      </u>	\$ <u>61,801</u>

- 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.

### Basis of Accounting

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

### Operating and Non-Operating Revenue and Expenses

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

### Cash

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

For purposes of the statements of net position and of cash flows, cash represents cash on hand and cash in bank accounts. As of September 30, 2013 and 2012, the carrying amounts of cash were \$5,454 and \$21,650, respectively, and the corresponding bank balances were \$125,595 and \$32,807, respectively, which were subject to Federal Deposit Insurance Corporation (FDIC) insurance.

### 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.

## MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2013 and 2012

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

#### Property and Equipment

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

#### Deferred Outflows of Resources

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

#### Deferred Inflows of Resources

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

#### Taxes

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

#### New Accounting Standards

During the year ended September 30, 2013, MAWC implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

## MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2013 and 2012

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

#### New Accounting Standards, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of MAWC.

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

# MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2013 and 2012

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

### New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of MAWC.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of MAWC.

### Estimates

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

## (3) Receivables

Receivables at September 30, 2013 and 2012, consist of the following:

	<u>2013</u>	<u>2012</u>
Trade	\$ 16,985	\$ 41,632
Grants	24,330	-
Affiliates	<u>57,319</u>	<u>15,602</u>
	98,634	57,234
Less allowance for doubtful debts	<u>(31,857)</u>	<u>(13,158)</u>
	\$ <u>66,777</u>	\$ <u>44,076</u>



## MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2013 and 2012

### (6) Social Security Taxes Payable

At September 30, 2013 and 2012, MAWC was liable for taxes, including certain delinquent taxes, payable to the Marshall Islands Social Security Administration (MISSA) in the amount of \$43,309 and \$27,410, respectively. On November 9, 2011, MAWC and MISSA entered into a promissory note agreement for delinquent taxes. The terms of this agreement include monthly payments of \$2,500, inclusive of interest at 12% per annum, commencing November 30, 2011. As of September 30, 2013, this promissory note was paid in full.

Changes in long-term liabilities during the years ended September 30, 2013 and 2012 was as follows:

	Balance at October 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September <u>30, 2013</u>	Due Within <u>One Year</u>
Social security taxes payable	\$ <u>27,410</u>	\$ <u>73,054</u>	\$ <u>(57,155)</u>	\$ <u>43,309</u>	\$ <u>43,309</u>
	Balance at October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September <u>30, 2012</u>	Due Within <u>One Year</u>
Social security taxes payable	\$ <u>49,747</u>	\$ <u>-</u>	\$ <u>(22,337)</u>	\$ <u>27,410</u>	\$ <u>27,410</u>

### (7) Long-Term Debt

On September 26, 2013, MAWC entered into loan agreement with a bank in the amount of \$120,000 to assist with funding for operating expenses. The loan will mature on September 30, 2017. The loan is collateralized by 2013 Freightliner Garbage Truck costing \$219,400. Interest is calculated at 8% per annum. Principal and interest are payable in monthly equal payments of \$2,935.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 26,439	\$ 8,781	\$ 35,220
2015	28,775	6,445	35,220
2016	31,151	4,069	35,220
2017	<u>33,635</u>	<u>1,470</u>	<u>35,105</u>
	\$ <u>120,000</u>	\$ <u>20,765</u>	\$ <u>140,765</u>

Changes in long-term liabilities during the year ended September 30, 2013 were as follows:

	Balance at October 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September <u>30, 2013</u>	Due Within <u>One Year</u>
Commercial bank loan	\$ <u>-</u>	\$ <u>120,000</u>	\$ <u>-</u>	\$ <u>120,000</u>	\$ <u>26,439</u>

## MAJURO ATOLL WASTE COMPANY

Notes to Financial Statements  
September 30, 2013 and 2012

### (8) Related Party Transactions

MAWC utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions as of and for the years ended September 30, 2013 and 2012 are as follows:

	2013			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 576	\$ 15,539	\$ 576	\$ 8,847
Marshall Islands Social Security Administration	303	74,030	-	43,309
College of the Marshall Islands	3,936	-	150	-
Marshall Islands National Telecommunications Authority	-	4,725	2,688	457
RepMar	13,966	66,128	48,980	24,022
Other	<u>8,666</u>	<u>1,294</u>	<u>4,925</u>	<u>-</u>
	<u>\$ 27,447</u>	<u>\$ 161,716</u>	<u>\$ 57,319</u>	<u>\$ 76,635</u>
	2012			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 816	\$ 9,176	\$ 1,809	\$ 3,852
Marshall Islands Social Security Administration	-	81,140	-	44,865
College of the Marshall Islands	5,322	-	3,048	-
Marshall Islands National Telecommunications Authority	-	2,764	-	437
RepMar	764	55,027	1,220	4,845
Other	<u>21,688</u>	<u>773</u>	<u>9,525</u>	<u>951</u>
	<u>\$ 28,590</u>	<u>\$ 148,880</u>	<u>\$ 15,602</u>	<u>\$ 54,950</u>

During the years ended September 30, 2013 and 2012, MAWC received operating subsidies from RepMar in the amount of \$352,769 and \$468,411, respectively. In addition, MAWC received subsidies for capital projects from RepMar in the amount of \$557,894 and \$65,000 during the years ended September 30, 2013 and 2012, respectively.

### (9) Contingency

MAWC receives a substantial amount of its revenue from annual RepMar appropriations. A significant reduction in the level of budgetary support from RepMar, if this were to occur, may have an effect on MAWC's programs and activities. For the year ended September 30, 2014, RepMar appropriated \$325,000 to MAWC for the purpose of funding operations.

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

Board of Directors  
Majuro Atoll Waste Company:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Majuro Atoll Waste Company (MAWC), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2014.

### **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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 to be material weaknesses.

## **Compliance and Other Matters**

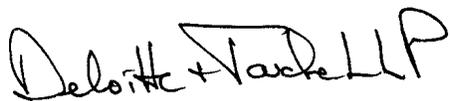
As part of obtaining reasonable assurance about whether MAWC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on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

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

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

## **Purpose of this Report**

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

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

June 5, 2014

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

Board of Directors  
Majuro Atoll Waste Company:

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

We have audited the Majuro Atoll Waste Company's (MAWC) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on MAWC's one major federal program for the year ended September 30, 2013. MAWC's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for MAWC's one major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MAWC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the one major federal program. However, our audit does not provide a legal determination of MAWC's compliance.

### ***Basis for Qualified Opinion on the Compact of Free Association Sector Grants major program***

As described in the accompanying Schedule of Findings and Questioned Costs, MAWC did not comply with requirements regarding the CFDA # 15.875 Compact of Free Association Sector Grants major program as described in item 2013-001 for Equipment and Real Property Management and item 2013-002 for Reporting. Compliance with such requirements is necessary, in our opinion, for MAWC to comply with the requirements applicable to that program.

### ***Qualified Opinion on the Compact of Free Association Sector Grants major program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, MAWC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Compact of Free Association Sector Grants major program for the year ended September 30, 2013.

### **Report on Internal Control Over Compliance**

Management of MAWC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MAWC's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MAWC's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

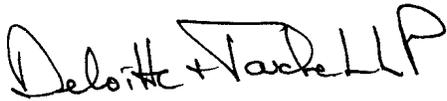
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-002 to be material weaknesses.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of MAWC as of and for the year ended September 30, 2013, and have issued our report thereon dated June 5, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

June 5, 2014

**MAJURO ATOLL WASTE COMPANY**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2013

<u>Program Title</u>	<u>Expenditures FY13</u>
<u>U.S. Department of the Interior:</u>	
Economic, Social and Political Development of the Territories:	
Compact of Free Association Program, As Amended, Sector Grants:	
Section 211(a)(5) Environment	\$ 323,750
Section 211(d)(1) Public Infrastructure Development	<u>604,940</u>
	<u>\$ 928,690</u>

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

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

Environment (included within operating expenses of \$845,822)	\$ 323,750
Capital asset acquisitions	<u>604,940</u>
	<u>\$ 928,690</u>

**MAJURO ATOLL WASTE COMPANY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2013

**A. SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

- |    |   |               |
|----|---|---------------|
| 1. | Type of auditors' report issued:                      | Unmodified    |
|    | Internal control over financial reporting:            |               |
| 2. | Material weakness(es) identified?                     | Yes           |
| 3. | Significant deficiency(ies) identified?               | None reported |
| 4. | Noncompliance material to financial statements noted? | No            |

*Federal Awards*

- |     |  |               |
|-----|--|---------------|
|     | Internal control over major programs:  |               |
| 5.  | Material weakness(es) identified?  | Yes           |
| 6.  | Significant deficiency(ies) identified?  | None reported |
| 7.  | Type of auditors' report issued on compliance for major programs:  | Modified      |
| 8.  | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes           |
| 9.  | Identification of major programs:  |               |
|     | <u>CFDA</u>  |               |
|     | <u>Number</u> <u>Federal Program</u>   |               |
|     | 15.875    Compact of Free Association, as Amended:<br>Solid Waste Disposal Project                                     |               |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs:   | \$300,000     |
| 11. | Auditee qualified as a low-risk auditee?   | No            |

**B. FINANCIAL STATEMENT FINDINGS**

<u>Reference</u> <u>Number</u>	<u>Findings</u>	<u>Refer</u> <u>Page #</u>
2013-001	Fixed Assets	25

**MAJURO ATOLL WASTE COMPANY**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

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

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2013-001	Equipment and Real Property Management	25
2013-002	Reporting	26

## MAJURO ATOLL WASTE COMPANY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.:2013-001

#### Fixed Assets

Criteria: Article VI - *Post-Award Requirements* of the RMI-US Fiscal Procedures Agreement states the following:

#### 4. *Management Requirements*

(ii). A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years

Condition: Certain Federal-Funded equipment at cost of \$70,483 with net book value of \$35,242 as of September 30, 2013 was damaged and beyond repair. It appears that this matter was not timely monitored and not updated in the fixed asset register. Thus, it appears that there is weak monitoring of the fixed assets which resulted to audit adjustment.

Cause: The cause of the above condition is inadequate internal control to comply with the Grant and Federal laws and regulations.

Effect: The effect of the above condition is noncompliance with the grant condition.

Recommendation: We recommend that management adopt internal control policies and procedures that comply with the criteria.

Auditee Response and Corrective Action Plan: Management had initially planned to repair the equipment and put back to use. However, the plan had not materialized since the company is short of cash to fund the repair. It was later determined that the cost of repair is much more than purchasing new ones. Hence, management had decided not to push through with the repair as it is not practical.

Therefore, management agrees that such balance in said equipment account should be retired.

## MAJURO ATOLL WASTE COMPANY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

#### Finding No. 2013-002

##### Subrecipient Grant Reporting

Criteria: Section 6, *Required Reports*, of the Memorandum of Agreement between RepMar and MAWC states the following:

MAWC shall provide the Secretary of Finance or its duly authorized representative, with a) Financial Status Report (FSR) detailing the total expenditures incurred during a financial quarter; and b) Annual Report at the end of the financial year.

Condition: Our audit of the SF 269 Financial Status Report for the quarter ending September 30, 2013 noted that cumulative Federal Share of Net Outlays amounting to \$372,599 does not match with \$866,889 of total the disbursed Federal grant resulting in an unobligated balance of \$494,290. Our tests confirmed that the total grant received during the year was fully disbursed as of September 30, 2013. In addition, there was incorrect reporting of indirect expenses per the quarterly report.

Furthermore, other quarterly reports were not on file for reference and review.

Cause: The cause of the above condition is due to inadequate internal control policy with respect to review processes.

Effect: The effect of the above condition is a misstatement of the quarterly reports submitted to RepMar.

Recommendation: We recommend management strengthen internal control policies over the review process that facilitate complete and correct reporting.

Auditee Response and Corrective Action Plan: In the report submitted, the total outlays reflected was the summation of all the company's cash disbursements during the fiscal year broken down as expenses from normal operation and capital equipment acquisitions that was funded by Federal Grant and the Government of Japan. In addition, Federal share of net outlays should have been \$866,889 to agree with the amount of the grant received to which, it was fully disbursed during the fiscal year. The next report to be submitted will only show the outlay disbursed from Federal funds.

**MAJURO ATOLL WASTE COMPANY**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2013

The status of other unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 23 through 26).