

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

**(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, 2011 AND 2010**

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Years Ended September 30, 2011 and 2010  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Republic of the Marshall Islands  
National Environmental Protection Authority Fund:

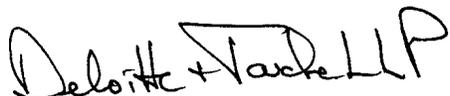
We have audited the accompanying statements of net assets of the National Environmental Protection Authority Fund (EPA), a component unit of the Republic of the Marshall Islands (RepMar), as of September 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of EPA's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EPA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of EPA as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2012, on our consideration of internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of EPA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.



August 10, 2012

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis  
September 30, 2011 and 2010

This section of the Environmental Protection Authority (EPA) annual financial report presents our discussion and analysis for RMIEPA's financial performance during the fiscal year that ended on September 30, 2011. Please read it in conjunction with the financial statements, which follow this section.

## EPA PURPOSE AND MANDATE

The EPA was first established in 1984 while the RMI was in its last years as a UN Trust Territory administered by the USA. The *Environmental Protection Act* and the activities encompassed by the EPA were largely set up at that time. A global shift in focus towards environmental issues, increased rate of development and issues such as waste management on small islands has left the EPA in a rapidly changing environment with a need to reassess its role and mandate. Currently in the RMI there is no Ministry of the Environment that would handle all environment issues with EPA as a division of the ministry and other divisions now currently in other agencies and ministries handling the other normal parts of an environmental ministry. As a result of the foregoing, EPA is looked upon by the general public and government for the total management of the environment although our Act only gives us the authority to protect and police and, in some cases, is so general in nature we do not have a clear authority to act to protect in some cases.

The purpose of EPA in the RMI is to study and monitor the human and natural impacts in the following major areas:

- Environmental Health and Water Quality
- Land and Coastal Management
- Conservation
- Waste and Pollution
- Environmental Information Management; and
- Education and Awareness

The functions and duties of the EPA, are mandated under the following Acts and Legislation:

- An Act to provide for the establishment of a National Environmental Protection Authority for the protection and management of the environment known as the National Environmental Protection Act of 1984 [P.L. 1984-31][P.L. 1987-2]
- The EPA is responsible for the administration, control, custody and management of the Coastal Zone, and for the implementation of the provisions of the *Coastal Conservation Act (1988)*, with respect to the obligations and mandates described above in the *Environment Protection Act (1984)*[P.L. 1988-13].
- *Public Health, Safety and Welfare Act, Chapter 1 Public Health and Sanitation*, EPA in the past conducted food inspections to improve safety of foods sold by grocery stores, restaurants and cooked food. EPA continues to do public awareness on the importance of having sanitary toilet facilities and septic systems; however, budgetary constraints and limited human resources have limited EPA's ability to continue to take the lead on Food Safety in the RMI. This issue is currently being revisited with the Ministry of Health, which has the mandate to undertake these functions.
- EPA is also mandated to administer and enforce the *Ozone Layer Protection Regulations (2004)* and the *Pesticides and Persistent Organic Pollutants (POPs) Regulations (2004)*.

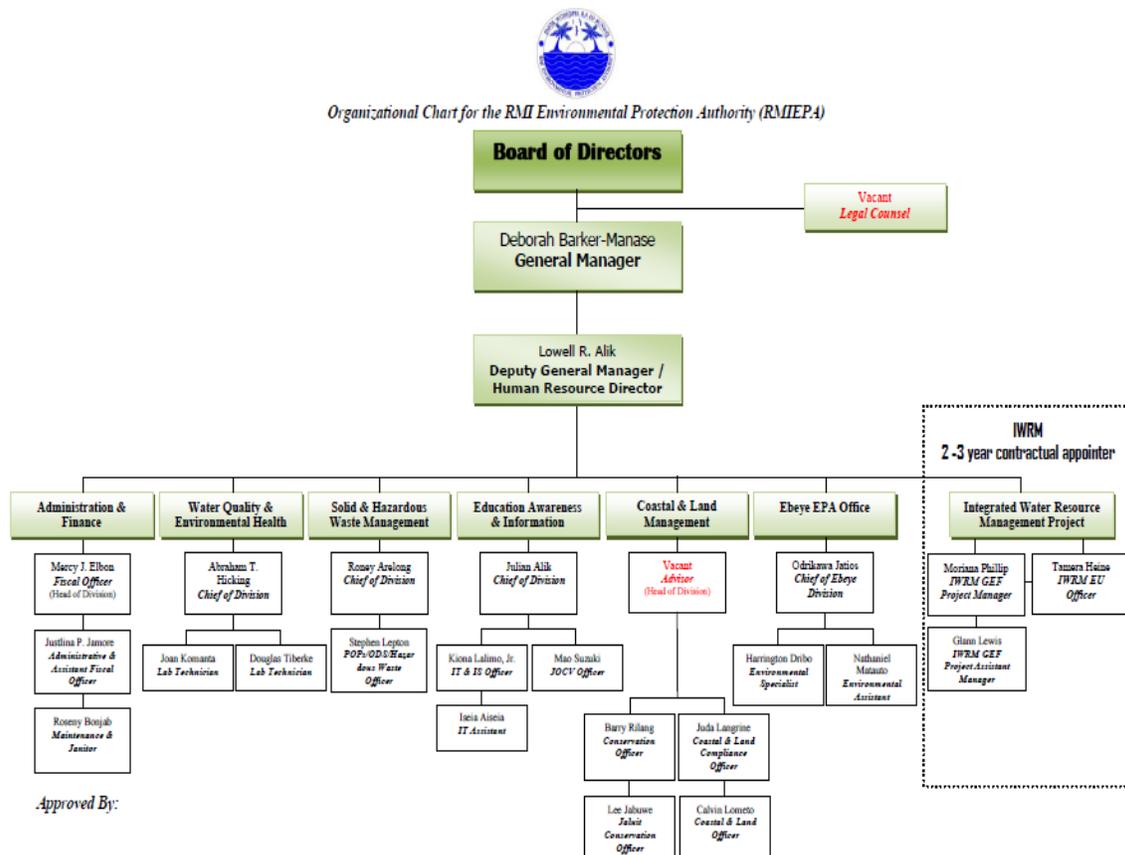
# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis  
September 30, 2011 and 2010

## ORGANIZATIONAL STRUCTURE

The Authority's executive function is headed by the General Manager who provides overall leadership in administering the affairs of the Authority. The General Manager facilitates cooperative efforts with other Ministries/Agencies and supplies the Board with policy advice and assistance with Cabinet-level concerns. The General Manager is assisted by a Deputy General Manager in directing the areas of Policy and Planning, in order to improve the delivery of services nationally and within communities. The Authority strives to be innovative in strengthening its capacity to provide more effective leadership. The functions of the divisions within the Authority will be reviewed accordingly, and where possible, core functions will be redefined in order to improve the capacity to deliver services efficiently and achieve maximum accountability at all levels of operation. Systems effective management principles will be observed in executing the Authority's mandate to provide quality services to the people of the Marshall Islands. This approach is based on the principles of efficiency, effectiveness, transparency and accountability in the Authority's expenditures and performance.

In line with the guiding principles of accountability, transparency and efficiency, the Authority's procurement systems will be reviewed in order to reflect compliance with the national procurement procedures. The Division heads will be accountable for annual expenditure reports to be included in the EPA Annual Report. EPA's organizational chart shown below provides an overview of all the divisions and external programs currently administered by the organization.



**NATIONAL ENVIRONMENTAL  
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Management's Discussion and Analysis  
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**FINANCIAL HIGHLIGHTS**

Management's Discussion and Analysis for the year ended September 30, 2011 is set forth in the report on the audit of RMIEPA's financial statements. The Discussion and Analysis explains the major factors impacting the 2011 financial statements.

RMIEPA's net assets increased in 2011 by \$83,221 or 63% from \$131,479 in 2010 to \$214,700 in 2011 due to an increase in operating revenues of \$246,011 or 48% compared to 2010 offset by an increase in operating expenses of \$189,681 or 39% compared to 2010. In 2011, operating revenues were increased mainly as a result of grant assistance received during the fiscal year for the IWRM GEF and EU Programs, Integrating Climate Change in Education Grant and ODS Institutional Strengthening Assistance and College of the Marshall Islands funding for Interns.

**FINANCIAL ANALYSIS OF EPA**

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provides an indication of RMIEPA's financial condition. RMIEPA's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in RMIEPA's financial condition.

A summary of RMIEPA's Statement of Net Assets is presented below:

<u>September 30</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 168,560	\$ 64,675	\$ 64,213
Capital assets	<u>52,609</u>	<u>76,132</u>	<u>44,137</u>
Total assets	\$ <u>221,169</u>	\$ <u>140,807</u>	\$ <u>108,350</u>
Current liabilities	\$ <u>6,469</u>	\$ <u>9,328</u>	\$ <u>3,762</u>
Net assets:			
Invested in capital assets	52,609	76,132	44,137
Unrestricted	73,569	10,926	27,015
Restricted	<u>88,522</u>	<u>44,421</u>	<u>33,436</u>
Total net assets	<u>214,700</u>	<u>131,479</u>	<u>104,588</u>
Total liabilities and net assets	\$ <u>226,269</u>	\$ <u>140,807</u>	\$ <u>108,350</u>

As indicated above, the total assets increased by \$80,362 or 57% from \$140,807 in 2010 to \$221,169 in 2011. This increase in total assets reflects an increase in grant awards received from foreign funding sources in FY11.

Current liabilities reflect a decrease of \$2,859 or 31% from \$9,328 in 2010 to \$6,469 in 2011. The decrease reflects improved settlement of the outstanding bills from Prior Year.

**NATIONAL ENVIRONMENTAL  
PROTECTION AUTHORITY FUND**

Management's Discussion and Analysis  
September 30, 2011 and 2010

A Summary of RMIEPA's Statement of Revenues, Expenses and Change in Net Assets is presented below:

Year ended September 30	2011	2010	2009
Revenues:			
Total Operating revenues*	\$ 757,807	\$ 511,796	\$ 473,411
Expenses:			
Total Operating expenses**	<u>674,586</u>	<u>484,905</u>	<u>475,860</u>
Change in net assets	\$ <u>83,221</u>	\$ <u>26,891</u>	\$ <u>(2,449)</u>

\*Includes Nitijela Appropriations

\*\*Includes EPA recording payments made by RepMar relating to salaries, wages and benefits of EPA employees

The Statement of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items that impact the change in net assets. As indicated above, RMIEPA's total revenues increased by \$246,011 or 48% from \$511,796 in 2010 to \$757,807 in 2011. The increase reflects mostly an increase in funding received from international environmental project grants from foreign sources, primarily IWRM-GEF.

Below is the summary of the major components of operating revenues for RMIEPA in 2011 compared to 2010 and 2009:

**Operating revenues**

Year ended September 30	2011	2010	2009
Nitijela appropriations	\$ 336,446	\$ 320,265	\$ 309,921
Grants	300,354	160,607	100,909
Fines	44,060	5,000	8,000
Fees and Charges	57,555	33,345	46,214
Others	<u>22,162</u>	<u>12,806</u>	<u>8,367</u>
	760,577	532,023	473,411
Less uncollectible accounts	<u>2,770</u>	<u>20,227</u>	<u>-</u>
Net Operating revenues	\$ <u>757,807</u>	\$ <u>511,796</u>	\$ <u>473,411</u>

As discussed above, total operating revenues increased by \$246,011 or 48% from \$511,796 in 2010 to \$757,807 in 2011, which was primarily due to an increase in grant revenues received under the Integrated Water Resources Management (IWRM), and EU Programs, Integrating Climate Change in Education Grant, ODS Institutional Strengthening Assistance and College of the Marshall Islands funding for Interns and Revenues from Permit fees and Fines. The increase reflects, in addition, receiving grants from foreign funding sources, was also generated from the enforcement and collection of the fines from violations as lots of these violation were acted upon by the Company concerned.

**NATIONAL ENVIRONMENTAL  
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Management's Discussion and Analysis  
September 30, 2011 and 2010

Below is a summary of the major components of operating expenses for RMIEPA in 2011 compared to 2010 and 2009.

Year ended September 30	2011	2010	2009
Salaries and Wages Marsh*	\$ 404,920	\$ 339,018	\$ 336,740
Travel	45,798	14,200	41,073
Supplies and Materials	28,441	20,158	13,123
Consultant services	3,350	20,000	-
Depreciation	30,337	16,908	15,794
Other Expenses	<u>161,740</u>	<u>74,621</u>	<u>69,130</u>
Total Operating Expenses	\$ <u>674,586</u>	\$ <u>484,905</u>	\$ <u>475,860</u>

\*Includes Nitijela Appropriations

As discussed above, total operating expenses increased by \$189,681 or 39% from \$484,905 in 2010 to \$674,586 in 2011. The increase is mainly due to recruitment of Project Personnel and Local consultant under the IWRM GEF and Interns from the CMI fund and procurement of office and computer supplies.

Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in the report on the audit of EPA's financial statements, which is dated July 20, 2011. That Discussion and Analysis explains the major factors impacting the 2010 financial statements and can be obtained from EPA's General Manager via the contact information below.

**CAPITAL ASSETS**

Net capital Assets decreased by \$23,523 or 31% from \$76,132 in 2010 compared to \$52,609 in 2011 as a result of the acquisition of Office Equipment supplies of \$7,810 less current year depreciation expense of \$30,337.

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

Year ended September 30	2011	2010	2009
Motor Vehicles	\$ 92,163	\$ 92,163	\$ 68,264
Office furniture and equipment	55,516	65,960	64,388
Boat	<u>15,000</u>	<u>15,000</u>	-
	162,679	173,123	132,652
Less accumulated depreciation	<u>(110,070)</u>	<u>(96,991)</u>	<u>(88,515)</u>
	\$ <u>52,609</u>	\$ <u>76,132</u>	\$ <u>44,137</u>

Additional information on RMIEPA's capital assets is disclosed within note 3 to the accompanying financial statements.

**NATIONAL ENVIRONMENTAL  
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Management's Discussion and Analysis  
September 30, 2011 and 2010

**ADDITIONAL FINANCIAL INFORMATION**

This discussion and analysis is designed to provide RMIEPA's counterparts with an overview of RMEPA's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request for additional information, please contact the National Environmental Protection Authority, General Manager, at P.O Box 1322, Majuro, MH 96960

**NATIONAL ENVIRONMENTAL  
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Statements of Net Assets  
September 30, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
Current assets:		
Cash	\$ 112,052	\$ 53,668
Receivables:		
Grants	-	2,770
Other	61,160	27,449
	<u>61,160</u>	<u>30,219</u>
Less allowance for doubtful accounts	(4,652)	(19,212)
	<u>56,508</u>	<u>11,007</u>
Total current assets	168,560	64,675
Capital assets, net	52,609	76,132
	<u>\$ 221,169</u>	<u>\$ 140,807</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 6,469	\$ 9,328
Contingency		
Net assets:		
Invested in capital assets	52,609	76,132
Restricted	88,522	44,421
Unrestricted	73,569	10,926
	<u>214,700</u>	<u>131,479</u>
Total net assets	<u>\$ 221,169</u>	<u>\$ 140,807</u>

See accompanying notes to financial statements.

**NATIONAL ENVIRONMENTAL  
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Statements of Revenues, Expenses, and Changes in Net Assets  
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Nitijela appropriations	\$ 336,446	\$ 320,265
Grants	300,354	160,607
Fees and charges	57,555	33,345
Fines	44,060	5,000
Other	22,162	12,806
	760,577	532,023
Less uncollectible accounts	(2,770)	(20,227)
Total operating revenues	757,807	511,796
Operating expenses:		
Salaries, wages and employee benefits	404,920	339,018
Contractual services	89,468	6,960
Travel	45,798	14,200
Depreciation	31,333	16,908
Supplies and materials	28,441	20,158
Workshop/meeting expense	13,121	5,318
Fuel	7,118	3,202
Repairs and maintenance	3,369	6,140
Consultant services	3,350	20,000
Printing and reproduction	3,320	7,295
Advertisements	3,167	220
Freight	2,522	367
Rentals	1,596	510
Utilities	1,508	-
Communications	175	3,058
Miscellaneous	35,380	41,551
Total operating expenses	674,586	484,905
Change in net assets	83,221	26,891
Net assets at beginning of year	131,479	104,588
Net assets at end of year	\$ 214,700	\$ 131,479

See accompanying notes to financial statements.

**NATIONAL ENVIRONMENTAL  
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Statements of Cash Flows  
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Operating grants received	\$ 303,124	\$ 166,607
Cash received from customers	72,736	48,011
Cash payments to suppliers for goods and services	(241,192)	(100,333)
Cash payments to employees for services	(68,474)	(38,753)
Net cash provided by operating activities	66,194	75,532
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(7,810)	(48,903)
Net change in cash	58,384	26,629
Cash at beginning of year	53,668	27,039
Cash at end of year	\$ 112,052	\$ 53,668
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 83,221	\$ 26,891
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	31,333	16,908
Bad debts	2,770	20,227
(Increase) decrease in assets:		
Receivables:		
Grants	2,770	6,000
Other	(51,041)	(3,140)
Advances	-	3,080
Increase (decrease) in liabilities:		
Accounts payable	(2,859)	5,566
Net cash provided by operating activities	\$ 66,194	\$ 75,532

Noncash investing, capital, and financing activities:

During the years ended September 30, 2011 and 2010, EPA recorded on-behalf payments of \$336,446 and \$300,265, respectively, made by RepMar relating to salaries, wages and benefits of EPA employees, and \$0 and \$20,000, respectively, relating to consulting fees,

See accompanying notes to financial statements.

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements  
September 30, 2011 and 2010

## (1) Organization

The National Environmental Protection Authority Fund (EPA), a component unit of the Republic of the Marshall Islands (RepMar), was created by the National Environmental Protection Authority Act of 1984 (Public Law No. 1984-31, the Act). EPA began operations as a statutory corporation on December 19, 1984, in accordance with the Act. The objectives of EPA are to preserve and improve the quality of the environment of the Republic of the Marshall Islands.

The operations of EPA were accounted for as a separate fund within RepMar's Ministry of Finance. In April 1997, EPA established a separate bank account outside of RepMar's Treasury for the purpose of receiving and disbursing funds in accordance with Public Law No. 1984-31. Accordingly, the accompanying financial statements relate solely to those accounting records maintained by EPA and do not incorporate any accounts related to EPA's operations that may be accounted for by RepMar's Treasury or any of RepMar's other branches, departmental units or component units.

EPA is governed by a Chairman and four other members, all of whom are appointed by the President of RepMar.

EPA'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 EPA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. EPA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, 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 modify certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement 34, equity is presented in the following net asset categories:

- Invested in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

**NATIONAL ENVIRONMENTAL  
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Notes to Financial Statements  
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

- Restricted; resources which EPA is legally or contractually obligated to spend in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law. All of EPA's restricted net assets are expendable.
- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets 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.

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.

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 assets. 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. EPA considers revenues and costs that are directly related to operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Cash

Custodial credit risk is the risk that in the event of a bank failure, EPA'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. EPA does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2011 and 2010, the carrying amount of cash was \$112,052 and \$53,668, respectively, and the corresponding bank balances were \$118,384 and \$76,458, respectively. Of the bank balance amounts, \$114,185 and \$74,089, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011 and 2010, these deposits were fully FDIC insured with the remaining deposits being maintained in a non-FDIC insured financial institution. EPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

**NATIONAL ENVIRONMENTAL  
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Notes to Financial Statements  
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Receivables

All receivables are due from 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 collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Capital Assets

EPA does not have a capitalization policy for fixed assets; however, items with a cost that equals or exceeds \$100 are generally capitalized at the time of acquisition. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Motor vehicles	3 years
Other furniture and equipment	5 years

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. EPA is specifically exempt from this tax.

New Accounting Standards

During fiscal year 2011, EPA implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

**NATIONAL ENVIRONMENTAL  
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Notes to Financial Statements  
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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses 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 provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve 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 provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

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Notes to Financial Statements  
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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

(3) Fixed Assets

Capital asset activity for the years ended September 30, 2011 and 2010 follows:

	October 1, <u>2010</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2011</u>
Boat	\$ 15,000	\$ -	\$ -	\$ 15,000
Motor vehicles	92,163	-	-	92,163
Office furniture and equipment	<u>65,960</u>	<u>7,810</u>	<u>(18,254)</u>	<u>55,516</u>
	173,123	7,810	(18,254)	162,679
Less accumulated depreciation	<u>(96,991)</u>	<u>(31,333)</u>	<u>18,254</u>	<u>(110,070)</u>
	<u>\$ 76,132</u>	<u>\$ (23,523)</u>	<u>\$ -</u>	<u>\$ 52,609</u>
	October 1, <u>2009</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2010</u>
Boat	\$ -	\$ 15,000	\$ -	\$ 15,000
Motor vehicles	68,264	23,899	-	92,163
Office furniture and equipment	<u>64,388</u>	<u>10,004</u>	<u>(8,432)</u>	<u>65,960</u>
	132,652	48,903	(8,432)	173,123
Less accumulated depreciation	<u>(88,515)</u>	<u>(16,908)</u>	<u>8,432</u>	<u>(96,991)</u>
	<u>\$ 44,137</u>	<u>\$ 31,995</u>	<u>\$ -</u>	<u>\$ 76,132</u>

(4) Related Party Transactions

EPA was created by the Nitijela of RepMar under Public Law No. 1984-31. As EPA is governed by a Chairman and four other members who are appointed by the President of RepMar, EPA is thus considered a component unit of RepMar. Accordingly, EPA is affiliated with all RepMar-owned and affiliated entities and utilizes services from affiliated entities, including communications and utility services, at substantially the same terms and conditions as those incurred from third parties.

During the years ended September 30, 2011 and 2010, RepMar recorded certain expenses of \$336,446 and \$434,179, respectively, which pertain to operational activities of EPA in accordance with Public Law 1984-31. Of these amounts, \$336,446 and \$300,265, respectively, represented on-behalf payments relating to salaries and wages of employees of EPA. Accordingly, EPA has recognized these on-behalf payments pertaining to salaries and wages expense as contributions from RepMar. Furthermore, RepMar paid consulting fees of \$0 and \$20,000, respectively, during the years ended September 30, 2011 and 2010, which have been recognized by EPA as contributions from RepMar.

**NATIONAL ENVIRONMENTAL  
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Notes to Financial Statements  
September 30, 2011 and 2010

(4) Related Party Transactions, Continued

EPA occupies certain office space belonging to RepMar at no cost. No lease agreement has been executed to formalize this arrangement. However, management is of the opinion that no rental payments for the use of the office space are anticipated. The fair value of this contribution is presently not determinable. Accordingly, the contributed use of facilities has not been recognized as revenue and expense in the accompanying financial statements.

(5) Risk Management

EPA 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. EPA has elected to purchase commercial automobile insurance from independent third parties for the risks of loss to which it is exposed with respect to the use of motor vehicles. 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, EPA has elected not to purchase commercial insurance. Instead, EPA 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 EPA's risk management activities in the past three years.

(6) Contingency

EPA does not maintain general liability insurance coverage on its operations. In the event of a loss, EPA may be self-insured to a material extent.

**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  
National Environmental Protection Authority Fund

We have audited the financial statements of the National Environmental Protection Authority Fund (EPA) as of and for the year ended September 30, 2011, and have issued our report thereon dated August 10, 2012. We conducted our audit 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.

**Internal Control Over Financial Reporting**

Management of EPA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered EPA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of EPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of EPA's internal control over financial reporting.

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 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.

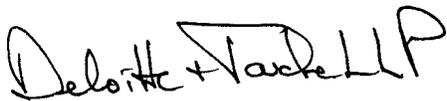
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether EPA'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*.

We noted certain matters that we reported to management of EPA in a separate letter dated August 10, 2012.

This report is intended solely for the information and use of management, the Board of Directors, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

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

August 10, 2012

**NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND**

Unresolved Prior Year Findings  
Year Ended September 30, 2011

There are no unresolved audit findings from prior year audits of EPA.