

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

**(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Years Ended September 30, 2012 and 2011
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INDEPENDENT AUDITORS' REPORT

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

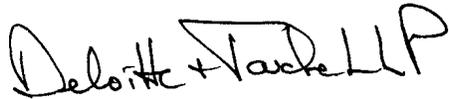
We have audited the accompanying statements of net assets of the National Environmental Protection Authority Fund (EPA), a component unit of the Republic of the Marshall Islands (RepMar), as of September 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and 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, 2012 and 2011, 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 May 21, 2013, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 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.

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

May 21, 2013

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis
September 30, 2012 and 2011

This section of the RMI Environmental Protection Authority ("RMIEPA", "EPA" or "the Authority") annual financial report presents our discussion and analysis for RMIEPA's financial performance during the fiscal year that ended on September 30, 2012. 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. 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 enabling legislation only gives us the authority to protect and police and, in some cases, is so general in nature that 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 Legislation:

- An Act to provide for the establishment of a National Environmental Protection Authority for the protection and management of the environment-National Environment Protection Act 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 *National 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)*.

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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 of Directors 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. 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 through the Authority's Strategic Action Plan.

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 RMI national procurement procedures. The new Organizational Chart for FY12 has created a position for a Procurement Office to ensure the better management of assets acquired for the Authority. The Division heads will be accountable for annual expenditure reports to be included in the EPA Annual Report. EPA's organizational chart provides an overview of all the divisions and external programs currently administered by the organization.

FINANCIAL HIGHLIGHTS

RMIEPA's net assets increased in 2012 by \$2,463 or 1% from \$214,700 in 2011 to \$217,163 in 2012. Operating revenues of \$633,790 in 2012 decreased by \$124,017 or 16% compared to \$757,807 in 2011. Similarly, operating expenses of \$631,327 in 2012 decreased by \$43,259 or 6% compared to \$674,586 in 2011. In 2012, operating revenues decreased mainly as a result of a reduction in 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 provide 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.

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

<u>At September 30</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 191,434	\$ 168,560	\$ 64,675
Capital assets	<u>36,695</u>	<u>52,609</u>	<u>76,132</u>
Total assets	\$ <u>228,129</u>	\$ <u>221,169</u>	\$ <u>140,807</u>
Current liabilities	\$ <u>10,966</u>	\$ <u>6,469</u>	\$ <u>9,328</u>
Net Assets:			
Investment in capital assets	36,695	52,609	76,132
Unrestricted	111,296	73,569	10,926
Restricted	<u>69,172</u>	<u>88,522</u>	<u>44,421</u>
Total net assets	<u>217,163</u>	<u>214,700</u>	<u>131,479</u>
Total liabilities and net assets	\$ <u>228,129</u>	\$ <u>221,169</u>	\$ <u>140,807</u>

As indicated above, the total assets increased by \$6,960 or 3% from \$221,169 in 2011 to \$228,129 in 2012. This increase in total assets reflects an increase in grants receivable from foreign funding sources in FY12.

Current liabilities reflect an increase of \$4,497 or 69% from \$6,469 in 2011 to \$10,966 in 2012. The increase reflects an increase in vendor payables compared with Prior Year.

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

<u>Year ended September 30</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues:			
Total Operating revenues*	\$ 633,790	\$ 757,807	\$ 511,796
Expenses:			
Total Operating expenses**	<u>631,327</u>	<u>674,586</u>	<u>484,905</u>
Change in net assets	\$ <u>2,463</u>	\$ <u>83,221</u>	\$ <u>26,891</u>

*Includes Nitijela Appropriations

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

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Management's Discussion and Analysis
September 30, 2012 and 2011

The Statements 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 decreased by \$124,017 or 16% from \$757,807 in 2011 to \$633,790 in 2012. The decrease reflects mostly a decrease in funding received from international environmental project grants from foreign sources, primarily IWRM-GEF and Integrating Climate Change in Education Grant and CMI Grant.

Below is the summary of the major components of operating revenues for RMIEPA in 2012 compared to 2011 and 2010:

Operating revenues

<u>Year ended September 30</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Nitijela appropriations	\$ 346,265	\$ 336,446	\$ 320,265
Grants	221,200	300,354	160,607
Fines	2,000	44,060	5,000
Fees and Charges	44,650	57,555	33,345
Other	<u>27,430</u>	<u>22,162</u>	<u>12,806</u>
	641,545	760,577	532,023
Less uncollectible accounts	<u>7,755</u>	<u>2,770</u>	<u>20,227</u>
Net Operating revenues	\$ <u>633,790</u>	\$ <u>757,807</u>	\$ <u>511,796</u>

As discussed above, total operating revenues decreased by \$124,017 or 16% from \$757,807 in 2011 to \$633,790 in 2012, which was primarily due to an decrease in grant revenues received under the Integrated Water Resources Management (IWRM) Integrating Climate Change in Education Grant, ODS Institutional Strengthening Assistance and College of the Marshall Islands funding for Interns. Revenue from Permit fees and Fines decreased slightly in 2012 compared to 2011.

Below is a summary of the major components of operating expenses for RMIEPA in 2012 compared to 2011 and 2010.

Operating Expenses

<u>Year ended September 30</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Salaries and Wages Marsh*	\$ 406,881	\$ 404,920	\$ 339,018
Travel	43,566	45,798	14,200
Supplies and Materials	50,765	28,441	20,158
Consultant services	6,000	3,350	20,000
Depreciation	21,290	31,333	16,908
Other Expenses	<u>102,825</u>	<u>160,744</u>	<u>74,621</u>
Total Operating expenses	\$ <u>631,327</u>	\$ <u>674,586</u>	\$ <u>484,905</u>

*Includes Nitijela Appropriations

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As discussed above, total operating expenses decreased by \$43,259 or 6% from \$674,586 in 2011 to \$631,327 in 2012. The decrease is mainly due to less 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, 2011 is set forth in the report on the audit of RMIEPA's financial statements dated August 10, 2012. That Discussion and Analysis explains the major factors impacting the 2011 financial statements and may be obtained from the contract information below.

CAPITAL ASSETS

Net capital assets decreased by \$15,914 or 30% from \$52,609 in 2011 compared to 36,695 in 2012 as a result of the acquisition of Office Equipment supplies and Motor vehicle of 5,376 less current year depreciation expense of 21,290.

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

<u>At September 30</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Motor Vehicles	\$ 94,563	\$ 92,163	\$ 92,163
Office furniture and equipment	58,492	55,516	65,960
Boat	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>
	168,055	162,679	173,123
Less accumulated depreciation	<u>(131,360)</u>	<u>(110,070)</u>	<u>(96,991)</u>
	\$ <u>36,695</u>	\$ <u>52,609</u>	\$ <u>76,132</u>

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

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, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current assets:		
Cash	\$ 110,042	\$ 112,052
Receivables:		
Grants	74,000	-
Other	28,897	61,160
	<u>102,897</u>	<u>61,160</u>
Less allowance for doubtful accounts	(21,505)	(4,652)
	<u>81,392</u>	<u>56,508</u>
Total current assets	191,434	168,560
Capital assets, net	<u>36,695</u>	<u>52,609</u>
	<u>\$ 228,129</u>	<u>\$ 221,169</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 10,966	\$ 6,469
Contingency		
Net assets:		
Invested in capital assets	36,695	52,609
Restricted	69,172	88,522
Unrestricted	111,296	73,569
	<u>217,163</u>	<u>214,700</u>
Total net assets	<u>\$ 228,129</u>	<u>\$ 221,169</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Nitijela appropriations	\$ 346,265	\$ 336,446
Grants	221,200	300,354
Fees and charges	44,650	57,555
Fines	2,000	44,060
Other	27,430	22,162
	641,545	760,577
Less uncollectible accounts	(7,755)	(2,770)
Total operating revenues	633,790	757,807
Operating expenses:		
Salaries, wages and employee benefits	406,881	404,920
Supplies and materials	50,765	28,441
Travel	43,566	45,798
Depreciation	21,290	31,333
Workshop/meeting expense	17,351	13,121
Rentals	16,570	1,596
Fuel	7,856	7,118
Repairs and maintainance	7,003	3,369
Consultant services	6,000	3,350
Contractual services	5,283	89,468
Communications	3,151	175
Advertisements	1,757	3,167
Utilities	1,397	1,508
Printing and reproduction	649	3,320
Freight	523	2,522
Miscellaneous	41,285	35,380
	631,327	674,586
Change in net assets	2,463	83,221
Net assets at beginning of year	214,700	131,479
Net assets at end of year	\$ 217,163	\$ 214,700

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Operating grants received	\$ 147,200	\$ 303,124
Cash received from customers	115,441	72,736
Cash payments to suppliers for goods and services	(198,659)	(241,192)
Cash payments to employees for services	(60,616)	(68,474)
Net cash provided by operating activities	3,366	66,194
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(5,376)	(7,810)
Net change in cash	(2,010)	58,384
Cash at beginning of year	112,052	53,668
Cash at end of year	\$ 110,042	\$ 112,052
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 2,463	\$ 83,221
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	21,290	31,333
Bad debts	7,755	2,770
(Increase) decrease in assets:		
Receivables:		
Grants	(74,000)	2,770
Other	41,361	(51,041)
Increase (decrease) in liabilities:		
Accounts payable	4,497	(2,859)
Net cash provided by operating activities	\$ 3,366	\$ 66,194

Noncash investing, capital, and financing activities:

During the years ended September 30, 2012 and 2011, EPA recorded on-behalf payments of \$346,265 and \$336,446, respectively, made by RepMar relating to salaries, wages and benefits of EPA employees.

See accompanying notes to financial statements.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2012 and 2011

(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.

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Notes to Financial Statements
September 30, 2012 and 2011

(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, 2012 and 2011, the carrying amount of cash was \$110,042 and \$112,052, respectively, and the corresponding bank balances were \$112,716 and \$118,384, respectively. Of the bank balance amounts, \$107,788 and \$114,185, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, 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.

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(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 the year ended September 30, 2012, EPA implemented the following pronouncements:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB 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 implementation of this pronouncement did not have a material effect on the accompanying financial statements.

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 has not yet determined the effect of implementation of this statement on the financial statements of EPA.

In April 2012, GASB issued 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. 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 EPA.

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 EPA.

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 EPA.

(3) Fixed Assets

Capital asset activity for the years ended September 30, 2012 and 2011 follows:

	<u>October 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2012</u>
Boat	\$ 15,000	\$ -	\$ -	\$ 15,000
Motor vehicles	92,163	2,400	-	94,563
Office furniture and equipment	<u>55,516</u>	<u>2,976</u>	-	<u>58,492</u>
	162,679	5,376	-	168,055
Less accumulated depreciation	<u>(110,070)</u>	<u>(21,290)</u>	-	<u>(131,360)</u>
	<u>\$ 52,609</u>	<u>\$ (15,914)</u>	<u>\$ -</u>	<u>\$ 36,695</u>
	<u>October 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 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>

(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, 2012 and 2011, RepMar recorded certain expenses of \$414,595 and \$336,446, respectively, which pertain to operational activities of EPA in accordance with Public Law 1984-31. Of these amounts, \$346,265 and \$336,446, 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.

**NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND**

Notes to Financial Statements
September 30, 2012 and 2011

(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, 2012, and have issued our report thereon dated May 21, 2013. 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.

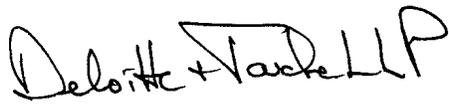
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 May 21, 2013.

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 + Touche LLP". The signature is written in a cursive, stylized font.

May 21, 2013

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Unresolved Prior Year Findings
Year Ended September 30, 2012

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