

**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, 2009 AND 2008

INDEPENDENT AUDITORS' REPORT

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

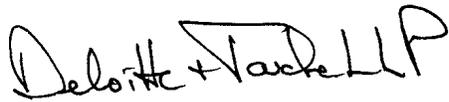
We have audited the accompanying statement of net assets of the National Environmental Protection Authority Fund (EPA), a component unit of the Republic of the Marshall Islands (RepMar), as of September 30, 2009, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year 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 audit. The 2008 financial statements were audited by other auditors, whose report dated March 23, 2010, expressed an unqualified opinion on those statements.

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. 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 audit provides 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, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 5 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2010, 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 the 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.

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

September 9, 2010

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Management's Discussion and Analysis
September 30, 2009 and 2008

This section of the Environmental Protection Authority annual financial report presents our discussion and analysis for RMIEPA's financial performance during the fiscal year that ended on September 30, 2009. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

RMIEPA's net assets decreased by \$2,449 or 2.3% from \$107,037 in 2008 to \$104,588 in 2009 due to an increase in operating revenues of \$53,739 or 13% from \$419,672 in 2008 to \$473,411 in 2009 with a corresponding increase in operating expenses of \$46,808 or 11% from \$429,052 in 2008 to \$475,860 in 2009. This increase is mainly due to receipt of grant funding from external funding sources for environmental projects in FY09; these projects are further elaborated below.

FINANCIAL ANALYSIS OF RMIEPA

The Statement of Net Assets (page 6) and the Statement of Revenues, Expenses and Changes in Net Assets (page 7) 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:

As of September 30	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 64,213	\$ 92,753	\$ 88,887
Capital assets	<u>44,137</u>	<u>17,207</u>	<u>29,912</u>
Total assets	<u>\$ 108,350</u>	<u>\$ 109,960</u>	<u>\$ 118,799</u>
Current liabilities	\$ <u>3,762</u>	\$ <u>2,923</u>	\$ <u>2,382</u>
Investment in capital assets	44,137	17,207	29,912
Unrestricted	27,015	16,051	22,576
Restricted	<u>33,436</u>	<u>73,779</u>	<u>63,929</u>
Total net assets	<u>104,588</u>	<u>107,037</u>	<u>116,417</u>
Total liabilities and net assets	<u>\$ 108,350</u>	<u>\$ 109,960</u>	<u>\$ 118,799</u>

As indicated above, total assets decreased by \$1,610 or 1.5% from \$109,960 in 2008 to \$108,350 in 2009. This decrease in total assets reflects a decrease in cash balances representing grant awards received from foreign funding sources and expended in FY09.

Current liabilities reflect an increase of \$839 or 29% from \$2,923 in 2008 to \$3,762 in 2009. The increase reflects payments owed to vendors in FY09 and paid in FY10. RMIEPA did not incur any long-term debt during 2009 and 2008 or maintained any outstanding long-term debt at the end of the respective year ends.

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

Year ended September 30	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:			
Total Operating revenues	\$ 473,411	\$ 419,672	\$ 509,747
Expenses:			
Total Operating expenses	<u>475,860</u>	<u>429,052</u>	<u>502,141</u>
Change in net assets	\$ <u>(2,449)</u>	\$ <u>(9,380)</u>	\$ <u>7,606</u>

The Statement of Revenues, Expenses and Changes in Net Assets identifies the various revenue and expense items that impact the change in net assets. As indicated above, RMIEPA's total revenues increased by \$53,739 or 13% from \$419,672 in 2008 to \$473,411 in 2009. The increase reflects an increase in funding received from international environmental project grants from foreign sources and an increase in other revenues recovered from the enforcement of regulations. RMIEPA is working with the Attorney General's Office to further improve collection of outstanding fines.

Below is the summary of the major components of operating revenues (excluding Nitijela appropriations) for RMIEPA in 2009 compared to 2008 and 2007:

Year ended September 30	<u>2009</u>	<u>2008</u>	<u>2007</u>
Grants	\$ 100,909	\$ 35,240	\$ 156,293
Fines	8,000	2,250	950
Fees and Charges	46,214	39,931	37,250
Others	<u>8,367</u>	<u>3,563</u>	<u>8,141</u>
Net Operating revenues	\$ <u>163,490</u>	\$ <u>80,984</u>	\$ <u>202,634</u>

As discussed above, total operating revenues from external sources increased by \$82,506 or 102% from \$80,984 in 2008 to \$163,490 in 2009, which was primarily due to an increase in grant revenues received under the Integrated Water Resources Management (IWRM), Ozone Depleting Substances (ODS), and Life Web funding program. Revenues from Fines, Fees and Charges and Other revenue increased slightly in 2009 compared to 2008.

Below is a summary of the major components of operating expenses for RMIEPA in 2009 compared to 2008 and 2007

Year ended September 30	<u>2009</u>	<u>2008</u>	<u>2007</u>
Salaries and wages	\$ 336,740	\$ 338,872	\$ 334,748
CMI matching fund	15,000	-	45,000
Travel	41,073	23,774	38,678
Supplies and materials	13,123	2,435	17,215
Depreciation	15,794	15,670	14,997
Other	<u>54,130</u>	<u>48,301</u>	<u>51,503</u>
Total Operating expenses	\$ <u>475,860</u>	\$ <u>429,052</u>	\$ <u>502,141</u>

As discussed above, total operating expenses increased by \$46,808 or 11% from \$429,052 in 2008 to \$475,860 in 2009, which was primarily due to a increase in grant funds passed through to the College of

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Management's Discussion and Analysis
September 30, 2009 and 2008

the Marshall Islands (CMI) as matching contribution from the Special Revenue and Integrated IWRM, ODS and Life Web Funding.

Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in the report on the audit of RMIEPA's financial statements, which is dated March 23, 2010. That Discussion and Analysis explains the major factors impacting the 2008 financial statements and can be obtained from RMIEP's General Manager via the contact information below.

CAPITAL ASSETS

Net capital Assets increased by \$26,930 or 156% in 2009 primarily as a result of the acquisition of capital assets of \$42,724 offset by net change in accumulated depreciation of \$15,794. A summary of RMIEPA's capital assets is presented below:

As of September 30	<u>2009</u>	<u>2008</u>	<u>2007</u>
Motor Vehicles	\$ 68,264	\$ 39,520	\$ 39,520
Office furniture and equipment	<u>64,388</u>	<u>50,408</u>	<u>47,443</u>
	132,652	89,928	86,963
Less accumulated depreciation	<u>(88,515)</u>	<u>(72,721)</u>	<u>(57,051)</u>
	\$ <u>44,137</u>	\$ <u>17,207</u>	\$ <u>29,912</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

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Statements of Net Assets
September 30, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Current assets:		
Cash	\$ 27,039	\$ 49,207
Receivables:		
Grants	8,770	19,945
Other	28,061	25,284
	<u>36,831</u>	<u>45,229</u>
Less allowance for doubtful accounts	(2,737)	(2,737)
	<u>34,094</u>	<u>42,492</u>
Advances	3,080	1,054
Total current assets	<u>64,213</u>	<u>92,753</u>
Capital assets, net	44,137	17,207
	<u>\$ 108,350</u>	<u>\$ 109,960</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 3,762	\$ 2,923
Net assets:		
Invested in capital assets	44,137	17,207
Restricted	33,436	73,779
Unrestricted	27,015	16,051
Total net assets	<u>104,588</u>	<u>107,037</u>
	<u>\$ 108,350</u>	<u>\$ 109,960</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Nitijela appropriations	\$ 309,921	\$ 338,688
Grants	100,909	35,240
Fees and charges	46,214	39,931
Fines	8,000	2,250
Other	8,367	3,563
	<hr/>	<hr/>
Total operating revenues	473,411	419,672
	<hr/>	<hr/>
Operating expenses:		
Salaries, wages and employee benefits	336,740	338,872
Travel	41,073	23,774
Depreciation	15,794	15,670
CMI matching fund	15,000	-
Supplies and materials	13,123	2,435
Communications	7,721	3,587
Fuel	7,052	2,244
Repairs and maintenance	6,271	5,404
Contractual services	6,059	1,287
Workshop/Meeting expense	5,852	4,101
Rentals	2,289	960
Printing and reproduction	2,228	574
Advertisements	2,187	2,118
Freight	940	22
Utilities	40	8,818
Bad debts	-	10,792
Miscellaneous	13,491	8,394
	<hr/>	<hr/>
Total operating expenses	475,860	429,052
	<hr/>	<hr/>
Change in net assets	(2,449)	(9,380)
	<hr/>	<hr/>
Net assets at beginning of year	107,037	116,417
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Net assets at end of year	\$ 104,588	\$ 107,037
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See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Operating grants received	\$ 112,084	\$ 45,087
Cash received from customers	59,804	46,853
Cash payments to suppliers for goods and services	(109,513)	(51,063)
CMI matching	(15,000)	-
Cash payments to employees for services	(26,819)	(184)
Net cash provided by operating activities	20,556	40,693
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(42,724)	(2,965)
Net change in cash	(22,168)	37,728
Cash at beginning of year	49,207	11,479
Cash at end of year	\$ 27,039	\$ 49,207
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (2,449)	\$ (9,380)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	15,794	15,670
Bad debts	-	10,792
(Increase) decrease in assets:		
Receivables:		
Grants	11,175	9,847
Other	(2,777)	1,109
Advances	(2,026)	12,114
Increase in liabilities:		
Accounts payable	839	541
Net cash provided by operating activities	\$ 20,556	\$ 40,693

Noncash investing, capital, and financing activities:

During the years ended September 30, 2009 and 2008, EPA recorded on-behalf payments of \$309,921 and \$338,688, respectively, made by RepMar relating to salaries, wages and benefits of EPA employees.

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2009 and 2008

(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 are 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, 2009 and 2008

(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, 2009 and 2008, the carrying amount of cash was \$27,039 and \$49,207, respectively, and the corresponding bank balances were \$36,572 and \$50,565, respectively. Of the bank balance amounts, \$34,468 and \$41,891, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, these bank deposits were fully FDIC insured with the remaining bank 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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Notes to Financial Statements
September 30, 2009 and 2008

(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 2009, EPA implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

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Notes to Financial Statements
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

In March 2009, GASB issued 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. The provisions of this statement are effective for periods beginning after June 15, 2010. 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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(3) Fixed Assets

Capital asset activity for the years ended September 30, 2009 and 2008 follows:

	October 1, <u>2008</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2009</u>
Motor vehicles	\$ 39,520	\$ 28,744	\$ -	\$ 68,264
Office furniture and equipment	<u>50,408</u>	<u>13,980</u>	<u>-</u>	<u>64,388</u>
	89,928	42,724	-	132,652
Less accumulated depreciation	<u>(72,721)</u>	<u>(15,794)</u>	<u>-</u>	<u>(88,515)</u>
	<u>\$ 17,207</u>	<u>\$ 26,930</u>	<u>\$ -</u>	<u>\$ 44,137</u>
	October 1, <u>2007</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2008</u>
Motor vehicles	\$ 39,520	\$ -	\$ -	\$ 39,520
Office furniture and equipment	<u>47,443</u>	<u>2,965</u>	<u>-</u>	<u>50,408</u>
	86,963	2,965	-	89,928
Less accumulated depreciation	<u>(57,051)</u>	<u>(15,670)</u>	<u>-</u>	<u>(72,721)</u>
	<u>\$ 29,912</u>	<u>\$ (12,705)</u>	<u>\$ -</u>	<u>\$ 17,207</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, 2009 and 2008, RepMar recorded certain expenses of \$385,844 and \$417,256, respectively, which pertain to operational activities of EPA in accordance with Public Law 1984-31. Of these amounts, \$309,921 and \$338,688, 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.

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.

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Notes to Financial Statements
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(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.