

**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, 2010 AND 2009**

## 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, 2010 and 2009, 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, 2010 and 2009, 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.

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2011, 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.



July 20, 2011

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis  
September 30, 2010 and 2009

This section of the Environmental Protection Authority (EPA) annual financial report presents our discussion and analysis for EPA's financial performance during the fiscal year that ended on September 30, 2010. Please read it in conjunction with the financial statements, which follow this section.

## EPA PURPOSE AND MANDATE

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 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 EPA in a rapidly changing environment with a need to reassess its role and mandate. Currently, there is no one Ministry of the Environment that would handle all environmental issues with EPA as a division alongside other divisions 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 enabling legislation only gives us the authority to protect and police and these acts, in some cases, are so general in nature we do not have a clear authority to act to protect.

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 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]
- 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)*.

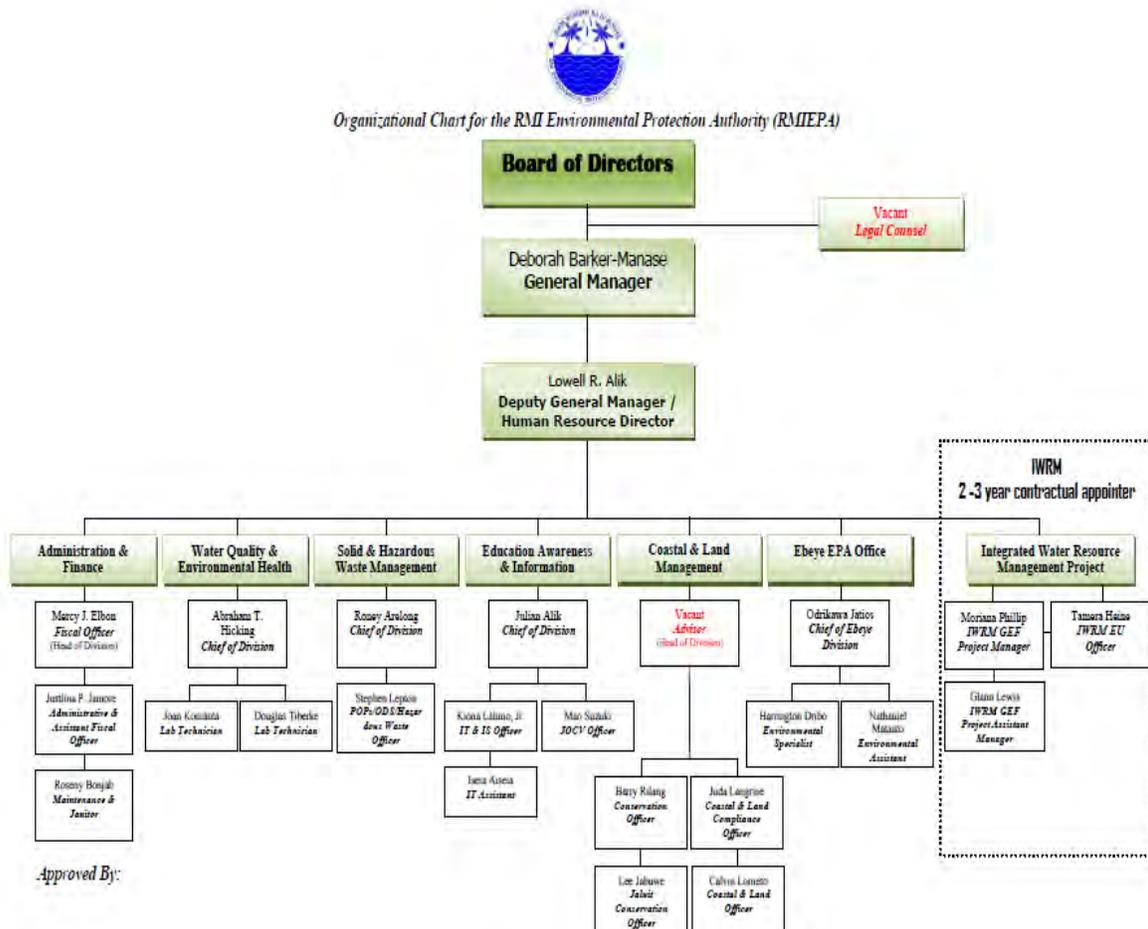
# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Management's Discussion and Analysis  
September 30, 2010 and 2009

## ORGANIZATIONAL STRUCTURE

EPA's executive function is headed by the General Manager who provides overall leadership in administering the affairs of EPA. 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 as well as to improve the delivery of services nationally and within communities. EPA strives to be innovative in strengthening its capacity to provide more effective leadership. The functions of the divisions within EPA 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 EPA'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 EPA's expenditures and performance.

In line with the guiding principles of accountability, transparency and efficiency, EPA'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 EPA's 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  
September 30, 2010 and 2009

**FINANCIAL HIGHLIGHTS**

EPA's net assets increased by \$26,891 or 26% from \$104,588 in 2009 to \$131,479 in 2010 due to an increase in operating revenues of \$38,385 or 8% compared to 2009 offset by an increase in operating expenses of \$9,045 or 2% compared to 2009. In 2010, operating revenues increased primarily due to the result of increased grant assistance received from SOPAC, including the "Water Quality Monitoring Programme" and the "Implementing Sustainable Water Resources and Wastewater Management in the Pacific Islands Project" grant awards. Operating expenses increased accordingly due to expenses incurred directly related to these grant awards.

**FINANCIAL ANALYSIS OF EPA**

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

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

September 30	2010	2009	2008
Current assets	\$ 64,675	\$ 64,213	\$ 92,753
Capital assets	<u>76,132</u>	<u>44,137</u>	<u>17,207</u>
Total assets	\$ <u>140,807</u>	\$ <u>108,350</u>	\$ <u>109,960</u>
Current liabilities	\$ <u>9,328</u>	\$ <u>3,762</u>	\$ <u>2,923</u>
Net assets:			
Invested in capital assets	76,132	44,137	17,207
Unrestricted	10,926	27,015	16,051
Restricted	<u>44,421</u>	<u>33,436</u>	<u>73,779</u>
Total net assets	<u>131,479</u>	<u>104,588</u>	<u>107,037</u>
Total liabilities and net assets	\$ <u>140,807</u>	\$ <u>108,350</u>	\$ <u>109,960</u>

As indicated above, total assets increased by \$32,457 or 30% from \$108,350 in 2009 to \$140,807 in 2010. This increase in total assets reflects an increase in capital assets funded primarily from EPA's grant revenue activities.

Current liabilities reflect an increase of \$5,566 or 148% from \$3,762 in 2009 to \$9,328 in 2010. The increase reflects amounts owed to vendors in FY10 that were paid in FY11.

**NATIONAL ENVIRONMENTAL  
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Management's Discussion and Analysis  
September 30, 2010 and 2009

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

Year ended September 30	2010	2009	2008
Revenues:			
Total Operating revenues*	\$ 511,796	\$ 473,411	\$ 419,672
Expenses:			
Total Operating expenses**	<u>484,905</u>	<u>475,860</u>	<u>429,052</u>
Change in net assets	\$ <u>26,891</u>	\$ <u>(2,449)</u>	\$ <u>(9,380)</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 identifies the various revenue and expense items that impact the change in net assets. As indicated above, EPA's total revenues increased by \$38,385 or 8% from \$473,411 in 2009 to \$511,796 in 2010. The increase reflects mostly an increase in funding received from international environmental project grants from foreign sources, primarily SOPAC.

Below is the summary of the major components of operating revenues for EPA in 2010 compared to 2009 and 2008:

**Operating revenues**

Year ended September 30	2010	2009	2008
Nitijela appropriations	\$ 320,265	\$ 309,921	\$ 338,688
Grants	160,607	100,909	35,240
Fines	5,000	8,000	2,250
Fees and Charges	33,345	46,214	39,931
Others	<u>12,806</u>	<u>8,367</u>	<u>3,563</u>
	532,023	473,411	419,672
Less uncollectible accounts	<u>20,227</u>	-	-
Net Operating revenues	\$ <u>511,796</u>	\$ <u>473,411</u>	\$ <u>419,672</u>

As discussed above, total operating revenues increased by \$38,385 or 8% from \$473,411 in 2009 to \$511,796 in 2010, which was primarily due to an increase in grant revenues received under SOPAC grants, including the "Water Quality Monitoring Programme" and the "Implementing Sustainable Water Resources and Wastewater Management in the Pacific Islands Project" grant awards as well as grants received from the United Nations Environment Programme (UNEP - Ozone Depleting Substances grant), the University of the South Pacific (USP - Persistent Organic Pollutants grant) and the Canadian Government (Coastal Monitoring and Enforcement grant). Revenues from fines, fees and charges decreased in 2010 compared to 2009 and 2008. In FY10, recruitment commenced for a Legal Counsel to provide additional in-country legal assistance to EPA to improve collections on fines. EPA anticipates fine revenues will increase in FY11 with the recruitment of a dedicated Legal Counsel.

**NATIONAL ENVIRONMENTAL  
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Management's Discussion and Analysis  
September 30, 2010 and 2009

Below is a summary of the major components of operating expenses for EPA in 2010 compared to 2009 and 2008:

Year ended September 30	2010	2009	2008
Salaries and Wages*	\$ 339,018	\$ 336,740	\$ 338,872
Travel	14,200	41,073	23,774
Office/Computer Supplies	20,158	13,123	2,435
Consultant services	20,000	-	-
Depreciation	16,908	15,794	15,670
Other Expenses	<u>74,621</u>	<u>69,130</u>	<u>48,301</u>
Total Operating Expenses	\$ <u>484,905</u>	\$ <u>475,860</u>	\$ <u>429,052</u>

\*Includes on-behalf payments made by RepMar

As discussed above, total operating expenses increased by \$9,045 or 2% from \$475,860 in 2009 to \$484,905 in 2010. The increase is mainly due to recruitment of Project Personnel under SOPAC grants in 2010 and procurement of office and computer supplies.

Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in the report on the audit of EPA's financial statements, which is dated September 9, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements and can be obtained from EPA's General Manager via the contact information below.

**CAPITAL ASSETS**

Investment in capital assets increased by \$31,995 or 72% from \$44,137 in 2009 to \$76,132 in 2010. In FY10, EPA acquired a project vehicle funded by SOPAC grant assistance and acquired a boat for coastal monitoring activities funded by a grant from the Canadian Government.

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

Year ended September 30	2010	2009	2008
Motor Vehicles	\$ 92,163	\$ 68,264	\$ 39,520
Office furniture and equipment	65,960	64,388	50,408
Boat	<u>15,000</u>	-	-
	173,123	132,652	89,928
Less accumulated depreciation	<u>(96,991)</u>	<u>(88,515)</u>	<u>(72,721)</u>
	\$ <u>76,132</u>	\$ <u>44,137</u>	\$ <u>17,207</u>

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

**NATIONAL ENVIRONMENTAL  
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Management's Discussion and Analysis  
September 30, 2010 and 2009

**ADDITIONAL FINANCIAL INFORMATION**

This discussion and analysis is designed to provide EPA's counterparts with an overview of EPA'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, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
Current assets:		
Cash	\$ 53,668	\$ 27,039
Receivables:		
Grants	2,770	8,770
Other	27,449	28,061
	<u>30,219</u>	<u>36,831</u>
Less allowance for doubtful accounts	(19,212)	(2,737)
	<u>11,007</u>	<u>34,094</u>
Advances	-	3,080
Total current assets	<u>64,675</u>	<u>64,213</u>
Capital assets, net	<u>76,132</u>	<u>44,137</u>
	<u>\$ 140,807</u>	<u>\$ 108,350</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 9,328	\$ 3,762
Contingency		
Net assets:		
Invested in capital assets	76,132	44,137
Restricted	44,421	33,436
Unrestricted	10,926	27,015
Total net assets	<u>131,479</u>	<u>104,588</u>
	<u>\$ 140,807</u>	<u>\$ 108,350</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Nitijela appropriations	\$ 320,265	\$ 309,921
Grants	160,607	100,909
Fees and charges	33,345	46,214
Fines	5,000	8,000
Other	12,806	8,367
	<hr/>	<hr/>
	532,023	473,411
Less uncollectible accounts	(20,227)	-
	<hr/>	<hr/>
Total operating revenues	511,796	473,411
	<hr/>	<hr/>
Operating expenses:		
Salaries, wages and employee benefits	339,018	336,740
Supplies and materials	20,158	13,123
Consultant services	20,000	-
Depreciation	16,908	15,794
Travel	14,200	41,073
Printing and reproduction	7,295	2,228
Contractual services	6,960	6,059
Repairs and maintainance	6,140	6,271
Workshop/Meeting expense	5,318	5,852
Fuel	3,202	7,052
Communications	3,058	7,721
Rentals	510	2,289
Freight	367	940
Advertisements	220	2,187
CMI matching fund	-	15,000
Utilities	-	40
Miscellaneous	41,551	13,491
	<hr/>	<hr/>
Total operating expenses	484,905	475,860
	<hr/>	<hr/>
Change in net assets	26,891	(2,449)
Net assets at beginning of year	104,588	107,037
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Net assets at end of year	\$ 131,479	\$ 104,588
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See accompanying notes to financial statements.

**NATIONAL ENVIRONMENTAL  
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Statements of Cash Flows  
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Operating grants received	\$ 166,607	\$ 112,084
Cash received from customers	48,011	59,804
Cash payments to suppliers for goods and services	(100,333)	(109,513)
CMI matching	-	(15,000)
Cash payments to employees for services	(38,753)	(26,819)
Net cash provided by operating activities	75,532	20,556
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(48,903)	(42,724)
Net change in cash	26,629	(22,168)
Cash at beginning of year	27,039	49,207
Cash at end of year	\$ 53,668	\$ 27,039
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 26,891	\$ (2,449)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,908	15,794
Bad debts	20,227	-
(Increase) decrease in assets:		
Receivables:		
Grants	6,000	11,175
Other	(3,140)	(2,777)
Advances	3,080	(2,026)
Increase in liabilities:		
Accounts payable	5,566	839
Net cash provided by operating activities	\$ 75,532	\$ 20,556

Noncash investing, capital, and financing activities:

During the years ended September 30, 2010 and 2009, EPA recorded on-behalf payments of \$300,265 and \$309,921, respectively, made by RepMar relating to salaries, wages and benefits of EPA employees, and \$20,000 and \$0, respectively, relating to consulting fees,

See accompanying notes to financial statements.

# NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements  
September 30, 2010 and 2009

## (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, 2010 and 2009

(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, 2010 and 2009, the carrying amount of cash was \$53,668 and \$27,039, respectively, and the corresponding bank balances were \$76,458 and \$36,572, respectively. Of the bank balance amounts, \$74,089 and \$34,468, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, 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, 2010 and 2009

(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 2010, EPA implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which 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.
- GASB 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.

**NATIONAL ENVIRONMENTAL  
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Notes to Financial Statements  
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

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 has not evaluated the effect that the implementation of this statement will have on the financial statements of EPA.

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 June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of EPA.

(3) Fixed Assets

Capital asset activity for the years ended September 30, 2010 and 2009 follows:

	October 1, 2009	Additions	Retirements	September 30, 2010
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>

**NATIONAL ENVIRONMENTAL  
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Notes to Financial Statements  
September 30, 2010 and 2009

(3) Fixed Assets, Continued

	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>

(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, 2010 and 2009, RepMar recorded certain expenses of \$434,179 and \$385,844, respectively, which pertain to operational activities of EPA in accordance with Public Law 1984-31. Of these amounts, \$300,265 and \$309,921, 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 \$20,000 and \$0, respectively, during the years ended September 30, 2010 and 2009, which have been recognized by EPA 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.

(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.