

**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, 2007 AND 2006



REPUBLIC OF THE MARSHALL ISLANDS
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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, as of September 30, 2007 and 2006, 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.

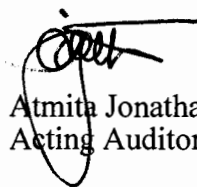
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of EPA as of September 30, 2007 and 2006, and its changes in 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 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 the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2009, on our consideration of EPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 read in conjunction with this report in considering the results of our audit.

December 15, 2009

A handwritten signature in black ink, appearing to read "Atmita Jonathan", is written over a horizontal line. The signature is stylized and somewhat cursive.

Atmita Jonathan
Acting Auditor-General

**NATIONAL ENVIRONMENTAL
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Management's Discussion and Analysis
September 30, 2007 and 2006

This section of the RMI Environmental Protection Authority (RMIEPA) annual financial report presents our discussion and analysis for RMIEPA's financial performance during the fiscal year that ended on September 30, 2007. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

RMIEPA's net assets increased by \$7,606 or 1% from \$108,811 in 2006 to \$116,417 in 2007 due to an increase in operating revenues of \$99,224 or 96% from \$103,410 in 2006 to \$202,634 in 2007 offset by an increase in operating expenses of \$56,678 or 41% from \$138,350 in 2006 to \$195,028 in 2007. The increase in operating revenues and expenses was due primarily to an increase in grant revenues received and related amounts expended under a United Nations Environmental Program (UNEP) grant

FINANCIAL ANALYSIS OF RMIEPA

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

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

As of September 30	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 88,887	\$ 100,733	\$ 146,691
Capital assets	<u>29,912</u>	<u>33,009</u>	<u>36,558</u>
Total assets	<u>\$ 118,799</u>	<u>\$ 133,742</u>	<u>\$ 183,249</u>
Current liabilities	\$ <u>2,382</u>	\$ <u>24,931</u>	\$ <u>31,288</u>
Net assets:			
Invested in capital assets	29,912	33,009	36,558
Restricted	63,929	-	-
Unrestricted	<u>22,576</u>	<u>75,802</u>	<u>115,403</u>
Total net assets	<u>116,417</u>	<u>108,811</u>	<u>151,961</u>
Total liabilities and net assets	<u>\$ 118,799</u>	<u>\$ 133,742</u>	<u>\$ 183,249</u>

As indicated above, total assets decreased by \$14,943 or 11% from \$133,742 in 2006 to \$118,799 in 2007. This decrease in total assets reflects project grants that were received from foreign funding sources, primarily UNEP, and expended during the current year.

Current liabilities reflect a decrease of \$22,549 or 90% from \$24,931 in 2006 to \$2,382 in 2007. The decrease reflects payments in full of delinquent liabilities owed to both RepMar and the Marshall Islands Social Security Administration (MISSA) and RMI Government income taxes owed from prior administrations.

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Management's Discussion and Analysis
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A Summary of RMIEPA's Statements of Revenues, Expenses, and Changes in Net Assets is presented below:

Year ended September 30	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues:			
Operating revenues	\$ <u>202,634</u>	\$ <u>103,410</u>	\$ <u>97,572</u>
Total revenues	<u>202,634</u>	<u>103,410</u>	<u>97,572</u>
Expenses:			
Operating expenses	195,028	138,350	157,980
Non-operating expenses	<u>-</u>	<u>8,210</u>	<u>2,599</u>
Total expenses	<u>195,028</u>	<u>146,560</u>	<u>160,579</u>
Change in net assets	\$ <u>7,606</u>	\$ <u>(43,150)</u>	\$ <u>(63,007)</u>

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 increased by \$99,224 or 96% from \$103,410 in 2006 to \$202,634 in 2007. The increase reflects greater access to funding from the international environmental conventions for project grants from foreign funding sources offset partly by a decrease in other revenues being recovered from the enforcement of the regulation. RMIEPA is working with the Attorney General's Office to improve collection of outstanding fines.

Below is a summary of the major components of operating revenues for RMIEPA in 2007 compared to 2006 and 2005:

Year ended September 30	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues:			
Grants	\$ 156,293	\$ 4,300	\$ 77,607
Fees and charges	37,250	43,152	24,588
Fines	950	21,850	11,925
Other	<u>8,141</u>	<u>34,108</u>	<u>(1,843)</u>
	202,634	103,410	112,277
Less provision for bad debts	<u>-</u>	<u>-</u>	<u>(14,705)</u>
Net operating revenues	\$ <u>202,634</u>	\$ <u>103,410</u>	\$ <u>97,572</u>

As discussed above, total operating revenues increased by \$99,224 or 96% from \$103,410 in 2006 to \$202,634 in 2007, which was primarily due to an increase in grant revenues received under the UNEP grant program.

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Management's Discussion and Analysis
September 30, 2007 and 2006

Below is a summary of the major components of operating expenses for RMIEPA in 2007 compared to 2006 and 2005:

Year ended September 30	<u>2007</u>	<u>2006</u>	<u>2005</u>
Expenses:			
CMI matching fund	\$ 45,000	\$ 6,819	\$ -
Salaries and wages	27,635	36,594	35,400
Travel	38,678	18,789	25,668
Supplies and materials	17,215	10,880	16,218
Depreciation	14,997	17,704	15,212
Other	<u>51,503</u>	<u>47,564</u>	<u>65,482</u>
 Total operating revenues	 \$ <u>195,028</u>	 \$ <u>138,350</u>	 \$ <u>157,980</u>

As discussed above, total operating expenses increased by \$56,678 or 41% from \$138,350 in 2006 to \$195,028 in 2007, which was primarily due to an increase in grant funds passed through to the College of the Marshall Islands (CMI) under the UNEP grant program, and an increase in operational expenses such as travel due to greater availability of project funds from donor international agencies.

Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in the report on the audit of RMIEPA's financial statements, which is dated July 11, 2008. That Discussion and Analysis explains the major factors impacting the 2006 financial statements.

CAPITAL ASSETS

Net Capital Assets decreased by \$3,097 or 9% in 2007 primarily as a result of the net acquisition of capital assets of \$11,900 offset by net change in accumulated depreciation of \$14,997. A summary of RMIEPA's capital assets is presented below:

As of September 30	<u>2007</u>	<u>2006</u>	<u>2005</u>
Motor vehicles	\$ 39,520	\$ 37,945	\$ 27,495
Office furniture and equipment	<u>47,443</u>	<u>40,513</u>	<u>37,197</u>
	86,963	78,458	64,692
Less accumulated depreciation	<u>(57,051)</u>	<u>(45,449)</u>	<u>(28,134)</u>
 Net operating revenues	 \$ <u>29,912</u>	 \$ <u>33,009</u>	 \$ <u>36,558</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 RMIEPA'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, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current assets:		
Cash	\$ 11,479	\$ 73,628
Receivables:		
Grants	29,792	-
Other	37,185	16,017
	<u>66,977</u>	<u>16,017</u>
Less allowance for doubtful accounts	(2,737)	(2,737)
	<u>64,240</u>	<u>13,280</u>
Advances	13,168	13,825
Total current assets	<u>88,887</u>	<u>100,733</u>
Capital assets, net	29,912	33,009
	<u>\$ 118,799</u>	<u>\$ 133,742</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 2,382	\$ 17,609
Other liabilities and accruals	-	7,322
Total liabilities	<u>2,382</u>	<u>24,931</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	29,912	33,009
Restricted	63,929	-
Unrestricted	22,576	75,802
Total net assets	<u>116,417</u>	<u>108,811</u>
	<u>\$ 118,799</u>	<u>\$ 133,742</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Grants	\$ 156,293	\$ 4,300
Fees and charges	37,250	43,152
Fines	950	21,850
Other	8,141	34,108
Total operating revenues	<u>202,634</u>	<u>103,410</u>
Operating expenses:		
CMI matching fund	45,000	6,819
Travel	38,678	18,789
Salaries, wages and employee benefits	27,635	36,594
Supplies and materials	17,215	10,880
Depreciation	14,997	17,704
Communications	8,235	2,723
Printing and reproduction	3,269	2,567
Freight	1,059	1,280
Rentals	1,040	2,371
Utilities	678	6,316
Miscellaneous	37,222	32,307
Total operating expenses	<u>195,028</u>	<u>138,350</u>
Operating income (loss)	7,606	(34,940)
Nonoperating expenses:		
Loss on disposal of fixed assets	-	(8,210)
Total nonoperating expenses	<u>-</u>	<u>(8,210)</u>
Change in net assets	7,606	(43,150)
Net assets at beginning of year	<u>108,811</u>	<u>151,961</u>
Net assets at end of year	<u>\$ 116,417</u>	<u>\$ 108,811</u>

See accompanying notes to financial statements.

**NATIONAL ENVIRONMENTAL
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Statements of Cash Flows
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Operating grants received	\$ 126,501	\$ 4,300
Cash received from customers	52,184	102,080
Cash payments to suppliers for goods and services	(196,259)	(117,706)
Cash payments to employees for services	<u>(32,675)</u>	<u>(41,370)</u>
Net cash used in operating activities	<u>(50,249)</u>	<u>(52,696)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(11,900)</u>	<u>(22,365)</u>
Net cash used in capital and related financing activities	<u>(11,900)</u>	<u>(22,365)</u>
Net change in cash	(62,149)	(75,061)
Cash at beginning of year	<u>73,628</u>	<u>148,689</u>
Cash at end of year	<u>\$ 11,479</u>	<u>\$ 73,628</u>
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ 7,606	\$ (34,940)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	14,997	17,704
(Increase) decrease in assets:		
Receivables:		
Grants	(29,792)	-
Other	(21,168)	2,970
Advances	657	(32,073)
Decrease in liabilities:		
Accounts payable	(15,227)	(1,581)
Other liabilities and accruals	<u>(7,322)</u>	<u>(4,776)</u>
Net cash used in operating activities	<u>\$ (50,249)</u>	<u>\$ (52,696)</u>

See accompanying notes to financial statements.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2007 and 2006

(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.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

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

- Investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- 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, 2007 and 2006, the carrying amount of cash was \$11,479 and \$73,628, respectively, and the corresponding bank balances were \$23,958, and \$73,710, respectively. Of the bank balance amounts, \$23,958 and \$69,051, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, bank deposits in the amount of \$100,000 are FDIC insured. 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
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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.

Fixed 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

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 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. The provisions of this statement are effective for periods beginning after December 15, 2007. 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
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EPA.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures-an Amendment of GASB Statements No. 25 and 27*, which amends applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27 *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements 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*. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of EPA.

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.

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Notes to Financial Statements
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(3) Fixed Assets

Capital asset activity for the years ended September 30, 2007 and 2006 follows:

	October 1, <u>2006</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2007</u>
Motor vehicles	\$ 37,945	\$ 1,575	\$ -	\$ 39,520
Office furniture and equipment	<u>40,513</u>	<u>10,325</u>	<u>(3,395)</u>	<u>47,443</u>
	78,458	11,900	(3,395)	86,963
Less accumulated depreciation	<u>(45,449)</u>	<u>(14,997)</u>	<u>3,395</u>	<u>(57,051)</u>
	<u>\$ 33,009</u>	<u>\$ (3,097)</u>	<u>\$ -</u>	<u>\$ 29,912</u>
	October 1, <u>2005</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2006</u>
Motor vehicles	\$ 27,495	\$ 17,950	\$ (7,500)	\$ 37,945
Office furniture and equipment	<u>37,197</u>	<u>4,415</u>	<u>(1,099)</u>	<u>40,513</u>
	64,692	22,365	(8,599)	78,458
Less accumulated depreciation	<u>(28,134)</u>	<u>(17,704)</u>	<u>389</u>	<u>(45,449)</u>
	<u>\$ 36,558</u>	<u>\$ 4,661</u>	<u>\$ (8,210)</u>	<u>\$ 33,009</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, 2007 and 2006, RepMar recorded certain expenses of \$377,060 and \$464,942, respectively, which pertain to operational activities of EPA in accordance with Public Law 1984-31.

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.