

**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, 2008 AND 2007



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, 2008 and 2007, 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.

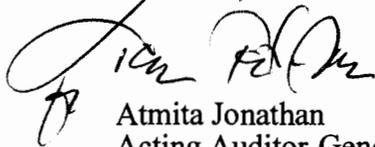
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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, 2008 and 2007, 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 March 23, 2010, 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.

March 23, 2010

A handwritten signature in black ink, appearing to read "Atmita Jonathan". The signature is stylized and cursive.

Atmita Jonathan
Acting Auditor-General

**NATIONAL ENVIRONMENTAL
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Management's Discussion and Analysis
September 30, 2008 and 2007

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, 2008. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

RMIEPA's net assets decreased by \$8,839 or 8% from \$118,799 in 2007 to \$109,960 in 2008 due to an decrease in operating revenues of \$121,650 or 60% from \$202,634 in 2007 to \$80,984 in 2008 offset by an decrease in operating expenses of \$104,664 or 54% from \$195,028 in 2007 to \$90,364 in 2008. The decrease 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>2008</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 92,753	\$ 88,887	\$ 100,733
Capital assets	<u>17,207</u>	<u>29,912</u>	<u>33,009</u>
Total assets	\$ <u>109,960</u>	\$ <u>118,799</u>	\$ <u>133,742</u>
Current liabilities	<u>2,923</u>	<u>2,382</u>	<u>24,931</u>
Net assets:			
Invested in capital assets	17,207	29,912	33,009
Restricted	16,051	63,929	-
Unrestricted	<u>73,779</u>	<u>22,576</u>	<u>75,802</u>
Total net assets	<u>107,037</u>	<u>116,417</u>	<u>108,811</u>
Total liabilities and net assets	\$ <u>109,960</u>	\$ <u>118,799</u>	\$ <u>133,742</u>

As indicated above, total assets decreased by \$8,839 or 8% from \$118,799 in 2007 to \$109,960 in 2008. 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 an increase of \$541 or 23% from \$2,382 in 2007 to \$2,923 in 2008. The increase 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.

**NATIONAL ENVIRONMENTAL
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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>2008</u>	<u>2007</u>	<u>2006</u>
Revenues:			
Operating revenues	\$ <u>80,984</u>	\$ <u>202,634</u>	\$ <u>103,410</u>
Total revenues	<u>80,984</u>	<u>202,634</u>	<u>103,410</u>
Expenses:			
Operating expenses	90,364	195,028	138,350
Non-operating expenses	-	-	<u>8,210</u>
Total expenses	<u>(9,380)</u>	<u>196,028</u>	<u>146,560</u>
Change in net assets	<u>(9,380)</u>	\$ <u>7,606</u>	\$ <u>(43,150)</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 decreased by \$121,650 or 60% from \$202,634 in 2007 to \$80,984 in 2008. The decreased 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 2008 compared to 2007 and 2006:

Year ended September 30	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues:			
Grants	\$ 35,240	\$ 156,293	\$ 4,300
Fees and charges	39,931	37,250	43,152
Fines	2,250	950	21,850
Other	<u>3,563</u>	<u>8,141</u>	<u>34,108</u>
Net operating revenues	<u>80,984</u>	\$ <u>202,634</u>	\$ <u>97,572</u>

As discussed above, total operating revenues decreased by \$121,650 or 60% from \$202,634 in 2007 to \$80,984 in 2008. Funding for one grant was received in FY 2008. Revenues from Fees and Charges increased slightly in 2008 compared to 2007.

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Management's Discussion and Analysis
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Below is a summary of the major components of operating expenses for RMIEPA in 2008 compared to 2007 and 2006:

Year ended September 30	<u>2008</u>	<u>2007</u>	<u>2006</u>
Expenses:			
CMI matching fund	\$ 0	\$ 45,000	\$ 6,819
Salaries and wages	184	27,635	36,594
Travel	23,774	38,678	18,789
Supplies and materials	2,435	17,215	10,880
Depreciation	15,670	14,997	17,704
Other	<u>48,301</u>	<u>51,503</u>	<u>47,564</u>
 Total operating revenues	 <u>\$90,364</u>	 <u>\$ 195,028</u>	 <u>\$ 138,350</u>

As discussed above, total operating expenses decreased by \$104,664 or 54% from \$138,350 in 2006 to \$138,350 in 2006 to \$195,028 in 2007, which was primarily due to an decrease 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, 2007 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 2007 financial statements.

CAPITAL ASSETS

Net Capital Assets decreased by \$12,705 or 42% in 2008 primarily as a result of the net acquisition of capital assets of \$2,964 offset by net change in accumulated depreciation of \$15,669. A summary of RMIEPA's capital assets is presented below:

As of September 30	<u>2008</u>	<u>2007</u>	<u>2006</u>
Motor vehicles	\$ 39,520	\$ 39,520	\$ 37,945
Office furniture and equipment	<u>50,407</u>	<u>47,443</u>	<u>40,513</u>
	89,927	86,963	78,458
Less accumulated depreciation	(72,720)	(57,051)	(45,449)
 Net operating revenues	 <u>\$ 17,207</u>	 <u>\$ 29,912</u>	 <u>\$ 33,009</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, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
Current assets:		
Cash	\$ 49,207	\$ 11,479
Receivables:		
Grants	19,945	29,792
Other	25,284	37,185
	<u>45,229</u>	<u>66,977</u>
Less allowance for doubtful accounts	(2,737)	(2,737)
	<u>42,492</u>	<u>64,240</u>
Advances	1,054	13,168
Total current assets	<u>92,753</u>	<u>88,887</u>
Capital assets, net	17,207	29,912
	<u>\$ 109,960</u>	<u>\$ 118,799</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 2,923	\$ 2,382
Commitments and contingencies		
Net assets:		
Invested in capital assets	17,207	29,912
Restricted	73,779	63,929
Unrestricted	16,051	22,576
	<u>107,037</u>	<u>116,417</u>
Total net assets	<u>\$ 109,960</u>	<u>\$ 118,799</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets
Year Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Nitijela appropriations	\$ 338,688	\$ 307,113
Fees and charges	39,931	37,250
Grants	35,240	156,293
Fines	2,250	950
Other	3,563	8,141
	419,672	509,747
Operating expenses:		
Salaries, wages and employee benefits	338,872	334,748
Travel	23,774	38,678
Depreciation	15,670	14,997
Bad Debts	10,792	-
Utilities	8,818	678
Repairs and Maintenance	5,404	6,892
Workshop/Meeting expense	4,101	7,753
Communications	3,587	8,235
Supplies and materials	2,435	17,215
Advertisements	2,118	2,648
Rentals	960	1,040
Printing and reproduction	574	3,269
Freight	22	1,059
CMI matching fund	-	45,000
Miscellaneous	11,925	19,929
	429,052	502,141
Change in net assets	(9,380)	7,606
Net assets at beginning of year	116,417	108,811
Net assets at end of year	\$ 107,037	\$ 116,417

See accompanying notes to financial statements.

**NATIONAL ENVIRONMENTAL
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Statements of Cash Flows
Year Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Operating grants received	\$ 45,087	\$ 126,501
Cash received from customers	46,853	52,184
Cash payments to suppliers for goods and services	(51,063)	(196,259)
Cash payments to employees for services	(184)	(32,675)
Net cash provided by (used in) operating activities	40,693	(50,249)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(2,965)	(11,900)
Net change in cash	37,728	(62,149)
Cash at beginning of year	11,479	73,628
Cash at end of year	\$ 49,207	\$ 11,479
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ (9,380)	\$ 7,606
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	15,670	14,997
Bad debts	10,792	-
(Increase) decrease in assets:		
Receivables:		
Grants	9,847	(29,792)
Other	1,109	(21,168)
Advances	12,114	657
Increase (decrease) in liabilities:		
Accounts payable	541	(15,227)
Other liabilities and accruals	-	(7,322)
Net cash provided by (used in) operating activities	\$ 40,693	\$ (50,249)

Noncash investing, capital, and financing activities:

During the years ended September 30, 2008 and 2007, EPA recorded on-behalf payments of \$338,688 and \$307,113, respectively, made by RepMar relating to salaries, wages and benefits of EPA employees.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2008 and 2007

(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:

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

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2008 and 2007

(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, 2008 and 2007, the carrying amount of cash was \$49,207 and \$11,479, respectively, and the corresponding bank balances were \$50,565, and \$23,958, respectively. Of the bank balance amounts, \$41,891 and \$23,958, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008 and 2007, 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, 2008 and 2007

(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 2008, EPA implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments and GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. 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 and also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of these statements did not 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*, 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. 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, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 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 November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 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. The provisions of this statement are effective for periods beginning after June 15, 2008. 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.

(3) Fixed Assets

Capital asset activity for the years ended September 30, 2008 and 2007 follows:

	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	47,443	2,965	-	50,408
	<u>86,963</u>	<u>2,965</u>	<u>-</u>	<u>89,928</u>
Less accumulated depreciation	(57,051)	(15,670)	-	(72,721)
	<u>\$ 29,912</u>	<u>\$ (12,705)</u>	<u>\$ -</u>	<u>\$ 17,207</u>

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(3) Fixed Assets, Continued

	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>

(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, 2008 and 2007, RepMar recorded certain expenses of \$417,256 and \$377,060, respectively, which pertain to operational activities of EPA in accordance with Public Law 1984-31. Of these amounts, \$338,688 and \$307,113, 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.

(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.