

**REPUBLIC OF THE MARSHALL ISLANDS  
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, 2019 AND 2018**

**REPUBLIC OF THE MARSHALL ISLANDS  
NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND  
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)**

Years Ended September 30, 2019 and 2018

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Republic of the Marshall Islands National Environmental Protection Authority Fund (EPA), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EPA as of September 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *COVID-19*

As discussed in Note 7 to the financial statements, EPA has determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. EPA is unable to reasonably estimate its ultimate financial impact. Our opinion is not modified with respect to this matter.

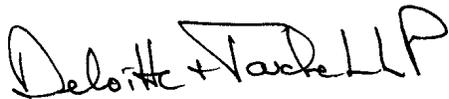
## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2020, 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 solely 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 effectiveness of EPA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EPA's internal control over financial reporting and compliance.



July 27, 2020

**REPUBLIC OF THE MARSHALL ISLANDS**  
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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

This section of the Environmental Protection Authority annual financial report presents our discussion and analysis of EPA's financial performance during the fiscal year that ended on September 30, 2019. 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 the EPA were largely set up at that time. A global shift in focus towards environmental issues, increased rate of development and issues such as waste management on small islands has left the EPA in a rapidly changing environment with a need to reassess its role and mandate. As a result of the foregoing, EPA is looked upon by the general public and government for the total management of the environment although our acts only give us the authority to protect and police and these acts in some cases are so general in nature that we do not have a clear authority to act to protect in some cases.

The purpose of EPA in the RMI is to study and monitor the human and natural impacts in the following major areas:

- Water Quality Monitoring and Laboratory
- Land, Coastal, and Conservation Management
- Waste and Pollution, and;
- Education and Awareness

The functions and duties of the EPA are mandated under the following Acts and 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 *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 EPAs ability to continue to take the lead on Food Safety in the RMI. This issue is currently being revisited with the Min. 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)*.

**ORGANIZATIONAL STRUCTURE**

EPA's executive function is headed by the General Manager who provides overall leadership in administering the affairs of the Authority. The General Manager facilitates cooperative efforts with other Ministries/Agencies and supplies the Board of Directors with policy advice and assistance with Cabinet-level concerns. The General Manager is assisted by a Deputy General Manager in directing the areas of Policy and Planning, in order to improve the delivery of services nationally and within communities.

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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

EPA strives to be innovative in strengthening its capacity to provide more effective leadership. Systems effective management principles is 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 of EPA's expenditures and performance through EPA's Strategic Action Plan.

In line with the guiding principles of accountability, transparency and efficiency, EPA's procurement systems are in place ensuring compliance with the national procurement procedures. EPA has created a position for a Procurement Officer to ensure the better management of assets acquired for EPA. The division heads are accountable for annual expenditure reports to be included in the EPA Annual Report.

**FINANCIAL HIGHLIGHTS**

EPA's net position decreased in 2019 by \$150,585 from \$704,868 in 2018 to \$554,283 in 2019 due to operating expenses exceeding operating revenues. Operating expenses increased by \$201,048 compared to 2018 while operating revenues increased by \$218,170 compared to 2018. The net position decrease of \$150,585 in 2019 is lower than the net position decrease of \$170,707 in 2018.

**FINANCIAL ANALYSIS OF EPA**

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of EPA's financial condition. EPA's net position reflect the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in EPA's financial condition. A summary of EPA's Statements of Net Position at September 30, 2019, 2018 and 2017 is presented below:

**Summary Statements of Net Position**  
As of September 30

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
<b>Assets:</b>					
Current and other assets	\$ 485,479	\$ 703,825	\$ (218,346)	(31.0)%	\$ 924,133
Capital assets	124,181	126,619	(2,438)	(1.9)%	60,548
<b>Total assets</b>	<b>609,660</b>	<b>830,444</b>	<b>(220,784)</b>	<b>(26.6)%</b>	<b>984,681</b>
<b>Liabilities:</b>					
Current and other liabilities	55,377	125,576	(70,199)	(55.9)%	109,106
<b>Net position:</b>					
Net investment in capital					
assets	124,181	126,619	(2,438)	(1.9)%	60,548
Restricted	123,523	119,124	4,399	3.7%	266,620
Unrestricted	306,579	459,125	(152,546)	(33.2)%	548,407
<b>Total net position</b>	<b>\$ 554,283</b>	<b>\$ 704,868</b>	<b>\$ (150,585)</b>	<b>(21.4)%</b>	<b>\$ 875,575</b>

As indicated above, the total net position decreased by \$150,585 from \$704,868 in 2018 to \$554,283 in 2019. This is the result of a decrease in total assets of \$220,784 from \$830,444 in 2018 to \$609,660 in 2019 offset by a decrease in total liabilities of \$70,199 from \$125,576 in 2018 to \$55,377 in 2019. The decrease in total assets was primarily due to a decrease in cash balances of \$163,564 from \$627,954 in 2018 to \$464,390 in 2019 and a decrease in receivables of \$54,782 from \$75,871 in 2018 to \$21,089 in 2019. The decrease in total liabilities was primarily due to a decrease in unearned revenue balances of \$64,284 from \$94,371 in 2018 to \$30,087 in 2019.

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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

A Summary of EPA's Statements of Revenues, Expenses and Changes in Net Position for the years ended September 30, 2019, 2018 and 2017 is presented below:

**Summary Statements of Revenues, Expenses and Changes in Net Position**  
Years Ended September 30

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
<b>Operating:</b>					
Operating revenues	\$ 734,139	\$ 515,969	\$ 218,170	42.3%	\$ 1,188,805
Operating expenses	<u>887,724</u>	<u>686,676</u>	<u>201,048</u>	29.3%	<u>585,153</u>
Operating loss	<u>(153,585)</u>	<u>(170,707)</u>	<u>17,122</u>	(10.0)%	<u>603,652</u>
<b>Nonoperating:</b>					
Nonoperating revenues	3,000	-	3,000		-
Nonoperating expenses	<u>-</u>	<u>-</u>	<u>-</u>		<u>17,215</u>
	<u>3,000</u>	<u>-</u>	<u>3,000</u>		<u>(17,215)</u>
	(150,585)	(170,707)	20,122	(11.8)%	586,437
Capital contributions	<u>-</u>	<u>-</u>	<u>-</u>		<u>39,680</u>
Change in net position	<u>\$ (150,585)</u>	<u>\$ (170,707)</u>	<u>\$ 20,122</u>	(11.8)%	<u>\$ 626,117</u>

The Statement of Revenues, Expenses and Changes in Net Position identifies the various revenue and expense items that impact the change in net position. As indicated above, EPA's total operating revenues increased by \$218,170 from \$515,969 in 2018 to \$734,139 in 2019. At the same time, total operating expenses increased by \$201,048 from \$686,676 in 2018 to \$887,724 in 2019. The increase in operating revenues is primarily due to the increase in Nitijela appropriations of \$94,702 from \$273,951 in 2018 to \$368,653 in 2019 and grants and contributions of \$154,299 from \$67,482 in 2018 to \$221,781 in 2019. The increase in operating expenses is primarily due to the increase in salaries and wages of \$106,646 from \$386,933 in 2018 to \$493,579 in 2019 and travel of \$53,489 from \$46,869 in 2018 to \$100,358 in 2019.

Below is the summary of the major components of operating revenues in 2019 compared to 2018 and 2017:

**Summary of Revenues by Component**  
Years Ended September 30

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
<b>Revenues:</b>					
Nitijela appropriations	\$ 368,653	\$ 273,951	\$ 94,702	34.6%	\$ 318,625
Grants and contributions	221,781	67,482	154,299	228.7%	254,827
Fees and charges	142,097	165,547	(23,450)	(14.2)%	149,526
Fines	13,850	50,532	(36,682)	(72.6)%	461,429
Others	<u>-</u>	<u>7,802</u>	<u>(7,802)</u>	(100.0)%	<u>4,398</u>
	746,381	565,314	181,067	32.0%	1,188,805
Uncollectible accounts	<u>(12,242)</u>	<u>(49,345)</u>	<u>37,103</u>	(75.2)%	<u>-</u>
Net revenues	<u>\$ 734,139</u>	<u>\$ 515,969</u>	<u>\$ 218,170</u>	42.3%	<u>\$ 1,188,805</u>

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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

Below is a summary of the major components of operating expenses in 2019 compared to 2018 and 2017:

**Summary of Expenses by Component**  
Years Ended September 30

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Expenses:					
Salaries, wages and benefits	\$ 493,579	\$ 386,933	\$ 106,646	27.6%	\$ 389,291
Travel	100,358	46,869	53,489	114.1%	38,682
Contractual services	64,901	76,400	(11,499)	(15.1)%	51,130
Depreciation	48,905	30,616	18,289	59.7%	11,101
Supplies and materials	42,173	31,882	10,291	32.3%	16,582
Subsidies	25,000	-	25,000		-
Rentals	7,815	26,420	(18,605)	(70.4)%	10,824
Repairs and maintenance	12,661	16,405	(3,744)	(22.8)%	5,693
Others	92,332	71,151	21,181	29.8%	61,850
	<u>\$ 887,724</u>	<u>\$ 686,676</u>	<u>\$ 201,048</u>	29.3%	<u>\$ 585,153</u>

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in the report on the audit of EPA's financial statements dated June 24, 2019. That Discussion and Analysis explains the major factors impacting the 2018 financial statements.

**CAPITAL ASSETS**

Net capital assets decreased by \$2,438 from \$126,619 in 2018 to \$124,181 in 2019 as a result of current year acquisitions of vehicles and office furniture and equipment of \$46,467 less current year depreciation expense of \$48,905. A summary of EPA's capital assets is presented below:

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Motor vehicles	\$ 90,445	\$ 95,844	\$ (5,399)	(5.6)%	\$ 78,849
Office furniture & equipment	186,710	158,743	27,967	17.6%	79,051
Boat	63,744	63,744	-	0.0%	63,744
	340,899	318,331	22,568	7.1%	221,644
Accumulated depreciation	(216,718)	(191,712)	(25,006)	13.0%	(161,096)
	<u>\$ 124,181</u>	<u>\$ 126,619</u>	<u>\$ (2,438)</u>	(1.9)%	<u>\$ 60,548</u>

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

The Marshall Islands is currently not being directly impacted by the current COVID-19 pandemic being experienced elsewhere worldwide. No cases of COVID-19 have yet to be experienced in the Marshall Islands and, as such, EPA have been able to continue operations as usual subject to the continued support from RepMar. In the event that the pandemic reaches the Marshall Islands, we expect EPA to feel the impact of such through either delayed issuance or temporary non-issuance of permits and continued reliance on RepMar for operational subsidies.

**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.

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Statements of Net Position  
September 30, 2019 and 2018

	2019	2018
<u>ASSETS</u>		
Current assets:		
Cash	\$ 464,390	\$ 627,954
Receivables:		
Trade	89,500	130,085
Grant	32,557	39,582
Other	23,805	18,735
	145,862	188,402
Less allowance for doubtful accounts	(124,773)	(112,531)
Total receivables, net	21,089	75,871
Total current assets	485,479	703,825
Capital assets, net	124,181	126,619
	\$ 609,660	\$ 830,444
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Accounts payable	\$ 7,558	\$ 15,472
Unearned revenue	30,087	94,371
Other liabilities and accruals	17,732	15,733
Total liabilities	55,377	125,576
Contingency		
Net position:		
Net investment in capital assets	124,181	126,619
Restricted	123,523	119,124
Unrestricted	306,579	459,125
Total net position	554,283	704,868
	\$ 609,660	\$ 830,444

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Nitijela appropriation	\$ 368,653	\$ 273,951
Grants and contributions	221,781	67,482
Fees and charges	142,097	165,547
Fines	13,850	50,532
Other	-	7,802
	<u>746,381</u>	<u>565,314</u>
Total operating revenues		
Provision for bad debts	<u>(12,242)</u>	<u>(49,345)</u>
Net operating revenues	<u>734,139</u>	<u>515,969</u>
Operating expenses:		
Salaries, wages and employee benefits	493,579	386,933
Travel	100,358	46,869
Contractual services	64,901	76,400
Depreciation	48,905	30,616
Supplies and materials	42,173	31,882
Subsidies	25,000	-
Insurance	21,495	3,358
Fuel	19,641	13,903
Communications	13,907	15,527
Repairs and maintenance	12,661	16,405
Rentals	7,815	26,420
Food stuffs	7,049	7,821
Printing and reproduction	6,054	1,495
Freight	3,487	4,656
Training	2,900	6,343
Sitting fees	2,800	2,875
Advertisements	373	7,460
Miscellaneous	14,626	7,713
	<u>887,724</u>	<u>686,676</u>
Total operating expenses		
Operating loss	(153,585)	(170,707)
Nonoperating revenues:		
Gain from capital asset disposal	<u>3,000</u>	<u>-</u>
Change in net position	(150,585)	(170,707)
Net position at beginning of year	<u>704,868</u>	<u>875,575</u>
Net position at end of year	<u>\$ 554,283</u>	<u>\$ 704,868</u>

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS  
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Statements of Cash Flows  
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	\$ 191,462	\$ 162,976
Operating grants received	164,522	48,474
Cash payments to suppliers for goods and services	(353,154)	(267,188)
Cash payments to employees for services	(122,927)	(97,510)
Net cash used for operating activities	(120,097)	(153,248)
Cash flows from capital and related financing activities:		
Proceeds from capital asset disposal	3,000	-
Acquisition of capital assets	(46,467)	(96,687)
Net cash used in capital and related financing activities	(43,467)	(96,687)
Net change in cash	(163,564)	(249,935)
Cash at beginning of year	627,954	877,889
Cash at end of year	\$ 464,390	\$ 627,954
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (153,585)	\$ (170,707)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	48,905	30,616
Bad debts expense	12,242	49,345
(Increase) decrease in assets:		
Receivables:		
Trade	40,585	(62,961)
Grants	7,025	(18,067)
Other	(5,070)	2,056
Increase (decrease) in liabilities:		
Accounts payable	(7,914)	15,472
Unearned revenue	(64,284)	(941)
Other liabilities and accruals	1,999	1,939
Net cash used for operating activities	\$ (120,097)	\$ (153,248)

Noncash investing, capital and financing activities:

During the years ended September 30, 2019 and 2018, EPA recorded on-behalf payments of \$368,653 and \$273,951, respectively, made by RepMar relating to salaries, wages, benefits of employees and other operating expenses.

See accompanying notes to financial statements.

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Notes to Financial Statements  
September 30, 2019 and 2018

(1) Organization

National Environmental Protection Authority (EPA) Fund, a component unit of the Republic of 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 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 and 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 (GAAP), as applicable to governmental entities, specifically proprietary funds.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34*, 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 modifies certain other financial statement disclosure requirements.

To conform to these requirements, equity is presented in the following net position categories:

- Net investment in capital assets: capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.
- Restricted: Nonexpendable net position subject to externally imposed stipulations that require EPA to maintain such permanently. As of September 30, 2019 and 2018, EPA does not have nonexpendable restricted net position.
- Restricted: Expendable net position whose use by EPA is subject to externally imposed stipulations that can be fulfilled by actions of EPA pursuant to those stipulations or that expire with the passage of time.

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Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

As of September 30, 2019 and 2018, EPA has expendable restricted net position as follows:

	<u>2019</u>	<u>2018</u>
Korean Small Grant	\$ 94,023	\$ 99,023
Secretariat of the South Pacific	19,466	-
United Nations Development Program	<u>10,034</u>	<u>20,101</u>
	<u>\$ 123,523</u>	<u>\$ 119,124</u>

- Unrestricted: net position that is not subject to externally imposed stipulations. Unrestricted net position 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.

When both restricted and unrestricted resources are available for use for the same purpose, it is EPA's policy to use unrestricted resources first, then restricted resources as they are needed.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. 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.

Revenue Recognition

EPA's revenues are derived primarily from activities directly related to the preservation and improving the quality of the environment. EPA considers Nitijela appropriations and operational grants and costs that are directly related to EPA's operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as non-operating. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. All expenses related to operating EPA are reported as operating expenses.

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.

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Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash held in demand deposits. As of September 30, 2019 and 2018, the carrying amount of cash was \$464,390 and \$627,954, respectively, and the corresponding bank balance was \$483,619 and \$656,116, respectively. Of the bank balance amount, \$457,952 and \$634,939, respectively, was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$25,667 and \$21,177, respectively, were maintained in a financial institution not subject to depository insurance. As of September 30, 2019 and 2018, bank deposits in the amount of \$250,000 were FDIC insured. EPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

All receivables are uncollateralized and are due from affiliates or customers, located within the Republic of the Marshall Islands. 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 collectability of these accounts and prior collection experience. Management determines the adequacy of the allowance for uncollectible accounts based upon review of the aged accounts receivable. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on the specific identification method.

Capital Assets

Capital assets with a cost that equals or exceeds \$300 are capitalized. Such assets are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. The estimated useful life of these assets are as follows:

Boat	5 years
Motor vehicles	3 years
Office furniture and equipment	5 years

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. EPA has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. EPA has no items that qualify for reporting in this category.

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Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Unearned Revenue

Unearned revenue represents unexpended grant receipts received that are required to be returned to the grantor at the end of the grant period or upon completion of the grant purpose requirements.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. EPA is specifically exempt from this tax.

New Accounting Standards

During the year ended September 30, 2019, EPA implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on EPA's financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

Reclassifications

Certain balances in the 2018 financial statements have been reclassified to conform to the 2019 presentation. These reclassifications had no impact on operating income, net position or cash flows are previously reported.

Estimates

The preparation of financial statements in accordance 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 deferred outflows of resources, liabilities and deferred inflows of resources, 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.

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(3) Capital Assets

Capital asset activity for the years ended September 30, 2019 and 2018 follows:

	2019			
	October 1, <u>2018</u>	Additions and Transfers	Retirements	September 30, <u>2019</u>
Boat	\$ 63,744	\$ -	\$ -	\$ 63,744
Motor vehicles	95,844	18,500	(23,899)	90,445
Office furniture and fixtures	<u>158,743</u>	<u>27,967</u>	<u>-</u>	<u>186,710</u>
	318,331	46,467	(23,899)	340,899
Less accumulated depreciation	<u>(191,712)</u>	<u>(48,905)</u>	<u>23,899</u>	<u>(216,718)</u>
	<u>\$ 126,619</u>	<u>\$ (2,438)</u>	<u>\$ -</u>	<u>\$ 124,181</u>
	2018			
	October 1, <u>2017</u>	Additions and Transfers	Retirements	September 30, <u>2018</u>
Boat	\$ 63,744	\$ -	\$ -	\$ 63,744
Motor vehicles	78,849	16,995	-	95,844
Office furniture and fixtures	<u>79,051</u>	<u>79,692</u>	<u>-</u>	<u>158,743</u>
	221,644	96,687	-	318,331
Less accumulated depreciation	<u>(161,096)</u>	<u>(30,616)</u>	<u>-</u>	<u>(191,712)</u>
	<u>\$ 60,548</u>	<u>\$ 66,071</u>	<u>\$ -</u>	<u>\$ 126,619</u>

(4) Related Party Transactions

EPA is a component unit of RepMar and is thus affiliated with all RepMar-owned and affiliated entities. EPA utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties.

During the years ended September 30, 2019 and 2018, EPA recognized on-behalf payments as contributions from RepMar, totaling \$368,653 and \$273,951, respectively, representing payroll and related expenses that RepMar paid directly on behalf of EPA.

EPA occupies certain office space belonging to RepMar at no cost. No lease agreement has executed to formalize this arrangement. However, management is of the opinion that no rental payment for the use of this property is anticipated. The fair value of this contribution is presently not determinable. Accordingly, the contributed use of facility has not been recognized as revenue and expense in the accompanying financial statements.

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Notes to Financial Statements  
September 30, 2019 and 2018

(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 insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

(6) Contingency

EPA receives a substantial amount of its revenue from annual RepMar appropriations. A significant reduction in the level of budgetary support from RepMar, if this were to occur, may have an effect on EPA's programs and activities. For the year ending September 30, 2020, RepMar appropriated \$570,279 for the purpose of funding EPA's programs and activities.

(7) Subsequent Events

On January 3, 2020, EPA settled an environmental case for damages caused by a grounded vessel in Iroij Island, Majuro Atoll on October 25, 2017. Settlement resulted in a payment of \$112,000 received by EPA on January 21, 2020.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of July 27, 2020, there have been no confirmed cases of COVID-19 in the Marshall Islands. EPA has determined that should the pandemic reach the Marshall Islands, it may negatively impact the EPA's programs and activities due to EPA's dependency on RepMar appropriations. The effect of the pandemic to RepMar is also uncertain and future available funding through RepMar appropriations may be limited. Therefore, while EPA expects this matter to potentially cause disruptions to operations, the related financial impact cannot be reasonably estimated at this time.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the 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, the financial statements of the Republic of the Marshall Islands National Environmental Protection Authority Fund (EPA), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 27, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered EPA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of EPA's internal control. Accordingly, we do not express an opinion on the effectiveness of EPA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

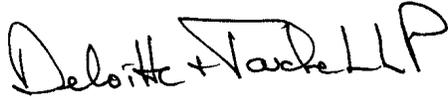
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether EPA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

July 27, 2020

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Unresolved Prior Year Findings  
Year Ended September 30, 2019

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