

**REPUBLIC OF THE MARSHALL ISLANDS
NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND**

**(A COMPONENT UNIT OF THE REPUBLIC OF
THE MARSHALL ISLANDS)**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2018

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

Year Ended September 30, 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 statement of net position as of September 30, 2018 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.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2018 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Restatement

As discussed in Note 6 to the financial statements, beginning net position has been restated to correct an error. Our opinion is not modified with respect to this matter.

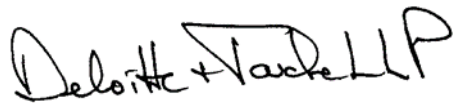
Other Matters

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 June 24, 2019, 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.



June 24, 2019

REPUBLIC OF THE MARSHALL ISLANDS
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Management's Discussion and Analysis
Year Ended September 30, 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, 2018. 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)*.

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Management's Discussion and Analysis
Year Ended September 30, 2018

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. 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 Office 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

Management's Discussion and Analysis for the year ended September 30, 2017 is set forth in the report on the audit of EPA's financial statements dated December 5, 2018. That Discussion and Analysis explains the major factors impacting the 2017 financial statements and may be obtained from the contact information below.

EPA's net position decreased in 2018 by \$170,707 from \$875,575 in 2017, as restated, to \$704,868 in 2018 due to the decrease in operating revenues of \$672,836 compared to 2017 offset by an increase in operating expenses of \$101,523 compared to 2017.

The presented 2017 balances have been restated due to a determination by management that unearned revenues in 2017 were understated by \$95,312. Additional information on the restatement is disclosed in note 6 to the accompanying financial statements.

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.

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Management's Discussion and Analysis
Year Ended September 30, 2018

A summary of EPA's Statements of Net Position at September 30, 2018 and 2017 is presented below:

	<u>2018</u>	<u>2017</u>	(%) <u>Change</u>
ASSETS:			
Current assets	\$ 703,825	\$ 924,133	(24%)
Capital assets	<u>126,619</u>	<u>60,548</u>	109%
Total assets	\$ <u>830,444</u>	\$ <u>984,681</u>	(16%)
LIABILITIES:			
Current liabilities	\$ <u>125,576</u>	\$ <u>109,106</u>	15%
NET POSITION:			
Net investment in capital assets	126,619	60,548	109%
Unrestricted	393,578	548,407	(28%)
Restricted	<u>184,671</u>	<u>266,620</u>	(31%)
Total net position	<u>704,868</u>	<u>875,575</u>	19%
Total liabilities and net position	\$ <u>830,444</u>	\$ <u>984,681</u>	(16%)

As indicated above, total net position decreased by \$170,707 from \$875,575 in 2017 to \$704,868 in 2018.

Liabilities reflect an increase of \$16,470 from \$109,106 in 2017 to \$125,576 in 2018.

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

	<u>2018</u>	<u>2017</u>	(%) <u>Change</u>
REVENUES:			
Operating revenues	\$ 515,969	\$ 1,188,805	(57%)
Capital contributions	<u>-</u>	<u>39,680</u>	(100%)
	<u>515,969</u>	<u>1,228,485</u>	(58%)
EXPENSES:			
Operating expenses	686,676	585,153	17%
Nonoperating expenses	<u>-</u>	<u>17,215</u>	(100%)
	<u>686,676</u>	<u>602,368</u>	14%
Change in net position	\$ <u>(170,707)</u>	\$ <u>626,117</u>	(127%)

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 revenues decreased by \$712,516 from \$1,228,485 in 2017 to \$515,969 in 2018. The decrease is due to the decrease in Nitijela appropriations, grants and contributions and fines.

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Management's Discussion and Analysis
Year Ended September 30, 2018

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

	<u>2018</u>	<u>2017</u>	(%) <u>Change</u>
Nitijela appropriation	\$ 273,951	\$ 318,625	(14%)
Fees and charges	165,547	149,526	11%
Grants and contributions	67,482	254,827	(74%)
Fines	50,532	461,429	(89%)
Others	7,802	4,398	77%
Less uncollectible accounts	<u>(49,345)</u>	<u>-</u>	100%
	<u>\$ 515,969</u>	<u>\$ 1,188,805</u>	(57%)

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

	<u>2018</u>	<u>2017</u>	(%) <u>Change</u>
Salaries, wages and benefits	\$ 386,933	\$ 389,291	(1%)
Contractual services	76,400	51,130	49%
Travel	46,869	38,682	21%
Depreciation	30,616	11,101	176%
Other	<u>145,858</u>	<u>94,949</u>	15%
	<u>\$ 686,676</u>	<u>\$ 585,153</u>	17%

Figures above outline the increase in total operating expenses by \$101,523 from \$585,153 in 2017 to \$686,676 in 2018 and is caused by building and vehicle repairs, purchases of new office equipment and supplies, and hiring of consultants.

CAPITAL ASSETS

Net capital assets increased by \$66,071 from \$60,548 in 2017 compared to \$126,619 in 2018 as a result current year acquisitions of vehicles and office furniture and equipment less current year depreciation expense of \$30,616.

A summary of EPA's capital assets, net of accumulated depreciation, is presented below:

	<u>2018</u>	<u>2017</u>	(%) <u>Change</u>
Motor vehicles	\$ 13,596	\$ -	-
Office furniture and equipment	93,856	26,798	250%
Boat	<u>19,167</u>	<u>33,750</u>	(43%)
	<u>\$ 126,619</u>	<u>\$ 60,548</u>	109%

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

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 EPA General Manager at P.O. Box 1322, Majuro, MH 96960.

**REPUBLIC OF THE MARSHALL ISLANDS
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Statement of Net Position
September 30, 2018

ASSETS

Current assets:	
Cash	\$ 627,954
Receivables:	
Trade	130,085
Grant	39,582
Other	<u>18,735</u>
	188,402
Less allowance for doubtful accounts	<u>(112,531)</u>
Total receivables, net	<u>75,871</u>
Total current assets	<u>703,825</u>
Capital assets, net	<u>126,619</u>
	<u>\$ 830,444</u>

LIABILITIES AND NET POSITION

Liabilities:	
Accounts payable	\$ 15,472
Unearned revenue	94,371
Other liabilities and accruals	<u>15,733</u>
Total liabilities	<u>125,576</u>
Contingency	
Net position:	
Net investment in capital assets	126,619
Restricted	184,671
Unrestricted	<u>393,578</u>
Total net position	<u>704,868</u>
	<u>\$ 830,444</u>

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS
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Statement of Revenues, Expenses, and Changes in Net Position
Year Ended September 30, 2018

Operating revenues:	
Nitijela appropriation	\$ 273,951
Fees and charges	165,547
Grants and contributions	67,482
Fines	50,532
Other	<u>7,802</u>
Total operating revenues	565,314
Provision for bad debts	<u>(49,345)</u>
Net operating revenues	<u>515,969</u>
Operating expenses:	
Salaries, wages and employee benefits	386,933
Contractual services	76,400
Travel	46,869
Supplies and materials	31,882
Depreciation	30,616
Rentals	26,420
Repairs and maintenance	16,405
Communications	15,527
Fuel	13,903
Food stuffs	7,821
Advertisements	7,460
Training	6,343
Freight	4,656
Insurance	3,358
Sitting fees	2,875
Printing and reproduction	1,495
Miscellaneous	<u>7,713</u>
Total operating expenses	<u>686,676</u>
Change in net position	<u>(170,707)</u>
Net position at beginning of year, as previously reported	970,887
Restatement (Note 6)	<u>(95,312)</u>
Net position at beginning of year, as restated	<u>875,575</u>
Net position at end of year	<u>\$ 704,868</u>

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS
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Statement of Cash Flows
Year Ended September 30, 2018

Cash flows from operating activities:	
Operating grants received	\$ 48,474
Cash received from customers	162,976
Cash payments to suppliers for goods and services	(267,188)
Cash payments to employees for services	<u>(97,510)</u>
Net cash used for operating activities	<u>(153,248)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(96,687)</u>
Net change in cash	(249,935)
Cash at beginning of year	<u>877,889</u>
Cash at end of year	<u><u>\$ 627,954</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (170,707)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	30,616
Bad debts expense	49,345
(Increase) decrease in assets:	
Receivables:	
Trade	(62,961)
Grants	(18,067)
Other	2,056
Increase (decrease) in liabilities:	
Accounts payable	15,472
Unearned revenue	(941)
Other liabilities and accruals	<u>1,939</u>
Net cash used for operating activities	<u><u>\$ (153,248)</u></u>

Noncash investing, capital and financing activities:

During the year ended September 30, 2018, EPA recorded on-behalf payments of \$273,951 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, 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 RepMar.

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 relates 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

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, plus construction or improvement of those assets.
- Restricted – net position whose use of EPA is subject to externally imposed stipulations that can be fulfilled by actions of EPA pursuant to those stipulations or that expire by the passage of time. As of September 30, 2018, EPA has restricted net position as follows:

Korean Small Grant	\$ 166,571
United Nations Development Program	<u>18,100</u>
	\$ <u>184,671</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.

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Notes to Financial Statements
September 30, 2018

(2) Summary of Significant Accounting Policies, Continued

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.

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. 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 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 position and of cash flows, cash is defined as cash on hand and cash held in demand deposits. As of September 30, 2018, the carrying amount of cash was \$627,954 and the corresponding bank balance was \$656,116. Of the bank balance amount, \$634,939 was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$21,177 were maintained in a financial institution not subject to depository insurance. As of September 30, 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 due from businesses and individuals located within the RepMar and interest free and uncollateralized. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on receivables that may become uncollectible based on evaluations of the collectability of these receivables and prior collection experience. The allowance is established through a provision for losses on receivables charged to expense.

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Notes to Financial Statements
September 30, 2018

(2) Summary of Significant Accounting Policies, Continued

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.

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.

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.

Taxes

Corporate profits are not subject to income tax in RepMar. The Government of RepMar 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, 2018, EPA implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

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Notes to Financial Statements
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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

In November 2016, GASB issued 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. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the 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 April 2018, GASB issued 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 provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that 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, 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.

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.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2018 follows:

	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>158,743</u>
	221,644	96,687	-	318,331
Less accumulated depreciation	<u>(161,096)</u>	<u>(30,616)</u>	-	<u>(191,712)</u>
	<u>\$ 60,548</u>	<u>\$66,071</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.

For the year ended September 30, 2018, EPA’s operations were funded by RepMar appropriations of \$273,951.

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.

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

Notes to Financial Statements
September 30, 2018

(5) 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 ended September 30, 2019, RepMar appropriated \$455,980 for the purpose of funding EPA's programs and activities.

(6) Restatement

Subsequent to the issuance of EPA's 2017 financial statements, EPA's management determined that unearned revenue was understated by \$95,312. As a result of this determination, beginning net position has been restated from the amount previously reported of \$970,887 to \$875,575.

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 statement of net position as of September 30, 2018, 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 June 24, 2019.

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.

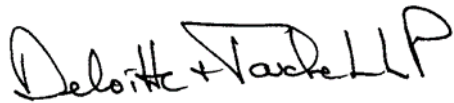
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 + Touche LLP". The signature is written in a cursive, stylized font.

June 24, 2019

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

Unresolved Prior Year Findings
Year Ended September 30, 2018

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