

**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, 2020 AND 2019**

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

Years Ended September 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

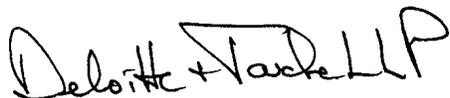
## **Other Matters**

### *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 October 12, 2021, 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.



October 12, 2021

**REPUBLIC OF THE MARSHALL ISLANDS**  
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Management's Discussion and Analysis  
Years Ended September 30, 2020 and 2019

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, 2020. 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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Years Ended September 30, 2020 and 2019

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 increased in 2020 by \$96,511 from \$554,283 in 2019 to \$650,794 in 2020 due to operating revenues exceeding operating expenses. Operating revenues increased by \$99,016 compared to 2019 while operating expenses decreased by \$151,080 compared to 2019. The net position increase of \$96,511 in 2020 is higher than the net position decrease of \$150,585 in 2019.

**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 reflects 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, 2020, 2019 and 2018 is presented below:

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

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
<b>Assets:</b>					
Current and other assets	\$ 618,132	\$ 485,479	\$ 132,653	27.3%	\$ 703,825
Capital assets	<u>89,196</u>	<u>124,181</u>	<u>(34,985)</u>	(28.2)%	<u>126,619</u>
Total assets	<u>707,328</u>	<u>609,660</u>	<u>97,668</u>	16.0%	<u>830,444</u>
<b>Liabilities:</b>					
Current and other liabilities	<u>56,534</u>	<u>55,377</u>	<u>1,157</u>	2.1%	<u>125,576</u>
<b>Net position:</b>					
Net investment in capital assets	89,196	124,181	(34,985)	(28.2)%	126,619
Restricted	233,369	123,523	109,846	88.9%	119,124
Unrestricted	<u>328,229</u>	<u>306,579</u>	<u>21,650</u>	7.1%	<u>459,125</u>
Total net position	<u>\$ 650,794</u>	<u>\$ 554,283</u>	<u>\$ 96,511</u>	17.4%	<u>\$ 704,868</u>

As indicated above, the total net position increased by \$96,511 from \$554,283 in 2019 to \$650,794 in 2020. This is the result of an increase in total assets of \$97,668 from \$609,660 in 2019 to \$707,328 in 2020 offset by an increase in total liabilities of \$1,157 from \$55,377 in 2019 to \$56,534 in 2020. The increase in total assets was primarily due to an increase in cash balances of \$123,614 from \$464,390 in 2019 to \$588,004 in 2020 and a decrease in capital assets of \$34,985 from \$124,181 in 2019 to \$89,196 in 2020. The increase in total liabilities was primarily due to an increase in unearned revenue balances of \$1,294 from \$30,087 in 2019 to \$31,381 in 2020.

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Management's Discussion and Analysis  
Years Ended September 30, 2020 and 2019

A Summary of EPA's Statements of Revenues, Expenses and Changes in Net Position for the years ended September 30, 2020, 2019 and 2018 is presented below:

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

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Operating:					
Operating revenues	\$ 833,155	\$ 734,139	\$ 99,016	13.5%	\$ 515,969
Operating expenses	<u>736,644</u>	<u>887,724</u>	<u>(151,080)</u>	(17.0)%	<u>686,676</u>
Operating income (loss)	96,511	(153,585)	250,096	(162.8)%	(170,707)
Nonoperating:					
Nonoperating revenues	<u>-</u>	<u>3,000</u>	<u>(3,000)</u>	(100.0)%	<u>-</u>
Change in net position	<u>\$ 96,511</u>	<u>\$ (150,585)</u>	<u>\$ 247,096</u>	(164.1)%	<u>\$ (170,707)</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 \$99,016 from \$734,139 in 2019 to \$833,155 in 2020. At the same time, total operating expenses decreased by \$151,080 from \$887,724 in 2019 to \$736,644 in 2020. The increase in operating revenues is primarily due to the increase in fines of \$125,800 from \$13,850 in 2019 to \$139,650 in 2020 offset by a decrease in grants and contributions of \$37,745 from \$221,781 in 2019 to \$184,036 in 2020. The decrease in operating expenses is primarily due to the decrease in travel of \$91,773 from \$100,358 in 2019 to \$8,585 in 2020, contractual services of 33,301 from \$64,901 in 2019 to \$31,600 in 2020, and subsidies of \$25,000 from \$25,000 in 2019 to \$0 in 2020.

Below is the summary of the major components of operating revenues in 2020 compared to 2019 and 2018:

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

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Revenues:					
Nitijela appropriations	\$ 352,872	\$ 368,653	\$ (15,781)	(4.3)%	\$ 273,951
Grants and contributions	184,036	221,781	(37,745)	(17.0)%	67,482
Fees and charges	147,594	142,097	5,497	3.9%	165,547
Fines	139,650	13,850	125,800	908.3%	50,532
Others	9,003	-	9,003		7,802
Uncollectible accounts	<u>-</u>	<u>(12,242)</u>	<u>12,242</u>	(100.0)%	<u>(49,345)</u>
	<u>\$ 833,155</u>	<u>\$ 734,139</u>	<u>\$ 99,016</u>	13.5%	<u>\$ 515,969</u>

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Management's Discussion and Analysis  
Years Ended September 30, 2020 and 2019

Below is a summary of the major components of operating expenses in 2020 compared to 2019 and 2018:

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

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Expenses:					
Salaries, wages and benefit	\$ 526,147	\$ 493,579	\$ 32,568	6.6%	\$ 386,933
Travel	8,585	100,358	(91,773)	(91.4)%	46,869
Contractual services	31,600	64,901	(33,301)	(51.3)%	76,400
Depreciation	46,146	48,905	(2,759)	(5.6)%	30,616
Supplies and materials	41,180	42,173	(993)	(2.4)%	31,882
Subsidies	-	25,000	(25,000)	(100.0)%	-
Rentals	10,299	7,815	2,484	31.8%	26,420
Repairs and maintenance	16,761	12,661	4,100	32.4%	16,405
Others	55,926	92,332	(36,406)	(39.4)%	71,151
	<u>\$ 736,644</u>	<u>\$ 887,724</u>	<u>\$ (151,080)</u>	(17.0)%	<u>\$ 686,676</u>

Management's Discussion and Analysis for the year ended September 30, 2019 is set forth in the report on the audit of EPA's financial statements dated July 27, 2020. That Discussion and Analysis explains the major factors impacting the 2019 financial statements.

**CAPITAL ASSETS**

Net capital assets decreased by \$34,985 from \$124,181 in 2019 to \$89,196 in 2020 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:

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Motor vehicles	\$ 91,670	\$ 90,445	\$ 1,225	1.4%	\$ 95,844
Office furniture & equipment	196,646	186,710	9,936	5.3%	158,743
Boat	63,744	63,744	-	0.0%	63,744
	352,060	340,899	11,161	3.3%	318,331
Accumulated depreciation	(262,864)	(216,718)	(46,146)	21.3%	(191,712)
	<u>\$ 89,196</u>	<u>\$ 124,181</u>	<u>\$ (34,985)</u>	(28.2)%	<u>\$ 126,619</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. Although four cases of COVID-19 have been experienced in the Marshall Islands, no community transmission has occurred. As such, EPA has been able to continue operations as usual subject to the continued support from RepMar. In the event that community transmission occurs, 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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 588,004	\$ 464,390
Receivables:		
Trade	106,253	64,044
Affiliates	20,616	25,456
Grant	7,329	32,557
Other	<u>20,703</u>	<u>23,805</u>
	154,901	145,862
Less allowance for doubtful accounts	<u>(124,773)</u>	<u>(124,773)</u>
Total receivables, net	<u>30,128</u>	<u>21,089</u>
Total current assets	618,132	485,479
Capital assets, net	<u>89,196</u>	<u>124,181</u>
	<u>\$ 707,328</u>	<u>\$ 609,660</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Accounts payable	\$ -	\$ 7,558
Payable to affiliates	20,528	13,021
Other liabilities and accruals	4,625	4,711
Unearned revenue	<u>31,381</u>	<u>30,087</u>
Total liabilities	<u>56,534</u>	<u>55,377</u>
Contingency		
Net position:		
Net investment in capital assets	89,196	124,181
Restricted	233,369	123,523
Unrestricted	<u>328,229</u>	<u>306,579</u>
Total net position	<u>650,794</u>	<u>554,283</u>
	<u>\$ 707,328</u>	<u>\$ 609,660</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended September 30, 2020 and 2019

	2020	2019
Operating revenues:		
Nitijela appropriation	\$ 352,872	\$ 368,653
Grants and contributions	184,036	221,781
Fees and charges	147,594	142,097
Fines	139,650	13,850
Other	9,003	-
	833,155	746,381
Total operating revenues		
Provision for bad debts	-	(12,242)
	833,155	734,139
Net operating revenues		
Operating expenses:		
Salaries, wages and employee benefits	526,147	493,579
Depreciation	46,146	48,905
Supplies and materials	41,180	42,173
Contractual services	31,600	64,901
Repairs and maintenance	16,761	12,661
Communications	14,958	13,907
Fuel	10,850	19,641
Rentals	10,299	7,815
Travel	8,585	100,358
Food stuffs	4,560	7,049
Insurance	4,406	21,495
Sitting fees	4,200	2,800
Printing and reproduction	3,558	6,054
Freight	2,482	3,487
Advertisements	1,158	373
Subsidies	-	25,000
Training	-	2,900
Miscellaneous	9,754	14,626
	736,644	887,724
Total operating expenses		
Operating income (loss)	96,511	(153,585)
Nonoperating revenues:		
Gain on disposal of capital assets	-	3,000
	96,511	(150,585)
Change in net position		
Net position at beginning of year	554,283	704,868
Net position at end of year	\$ 650,794	\$ 554,283

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS**  
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Statements of Cash Flows  
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 261,980	\$ 191,462
Operating grants received	210,558	164,522
Cash payments to suppliers for goods and services	(171,909)	(353,154)
Cash payments to employees for services	(165,854)	(122,927)
Net cash provided by (used for) operating activities	134,775	(120,097)
Cash flows from capital and related financing activities:		
Proceeds from capital asset disposal	-	3,000
Acquisition of capital assets	(11,161)	(46,467)
Net cash used in capital and related financing activities	(11,161)	(43,467)
Net change in cash	123,614	(163,564)
Cash at beginning of year	464,390	627,954
Cash at end of year	\$ 588,004	\$ 464,390
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 96,511	\$ (153,585)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	46,146	48,905
Bad debts expense	-	12,242
(Increase) decrease in assets:		
Receivables:		
Trade	(42,209)	40,585
Affiliates	4,840	-
Grants	25,228	7,025
Other	3,102	(5,070)
Increase (decrease) in liabilities:		
Accounts payable	(7,558)	(7,914)
Payable to affiliates	7,507	-
Unearned revenue	1,294	(64,284)
Other liabilities and accruals	(86)	1,999
Net cash provided by (used for) operating activities	\$ 134,775	\$ (120,097)

Noncash investing, capital and financing activities:

During the years ended September 30, 2020 and 2019, EPA recorded on-behalf payments of \$352,872 and \$368,653, 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, 2020 and 2019

(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 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, 2020 and 2019, EPA does not have nonexpendable restricted net position. 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. As of September 30, 2020 and 2019, EPA has expendable restricted net position as follows:

	<u>2020</u>	<u>2019</u>
World Bank (Global Environment Facility)	\$ 102,074	\$ -
Korean Small Grant	94,023	94,023
Secretariat of the South Pacific	37,272	19,466
United Nations Development Program	-	10,034
	<u>\$ 233,369</u>	<u>\$ 123,523</u>

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Notes to Financial Statements  
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

- 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.

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, 2020 and 2019, the carrying amount of cash was \$588,004 and \$464,390, respectively, and the corresponding bank balance was \$600,548 and \$483,619, respectively. Of the bank balance amount, \$576,468 and \$457,952, respectively, was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$24,080 and \$25,667, respectively, were maintained in a financial institution not subject to depository insurance. As of September 30, 2020 and 2019, 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.

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

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.

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.

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Notes to Financial Statements  
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 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, 91, 92 and 93 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. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

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Notes to Financial Statements  
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. Except for paragraphs 11b, 13, and 14, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2021. The requirement in paragraphs 11b, 13, and 14 are effective for fiscal year September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

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.

(3) Capital Assets

Capital asset activity for the years ended September 30, 2020 and 2019 follows:

	October 1, <u>2019</u>	<u>2020</u>		September 30, <u>2020</u>
		<u>Additions and Transfers</u>	<u>Retirements</u>	
Boat	\$ 63,744	\$ -	\$ -	\$ 63,744
Motor vehicles	90,445	1,225	-	91,670
Office furniture and fixtures	<u>186,710</u>	<u>9,936</u>	-	<u>196,646</u>
	340,899	11,161	-	352,060
Less accumulated depreciation	<u>(216,718)</u>	<u>(46,146)</u>	-	<u>(262,864)</u>
	<u>\$ 124,181</u>	<u>\$ (34,985)</u>	<u>\$ -</u>	<u>\$ 89,196</u>

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**(3) Capital Assets, Continued**

	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>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>

**(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. A summary of related party balances and transactions as of and for the years ended September 30, 2020 and 2019 is as follows:

	2020			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 352,872	\$ 367,779	\$ 4,539	\$ 5,734
Marshall Islands Social Security Administration	-	22,247	-	14,794
Marshall Islands Marine Resources Authority	113,760	-	-	-
Kwajalein Atoll Joint Utilities Resources, Inc.	5,000	-	8,762	-
Marshalls Energy Company, Inc.	-	-	3,263	-
Marshall Islands Shipping Corporation	-	-	2,801	-
Other	<u>1,500</u>	<u>1,393</u>	<u>1,251</u>	-
	<u>\$ 473,132</u>	<u>\$ 391,419</u>	<u>\$ 20,616</u>	<u>\$ 20,528</u>
	2019			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 368,653	\$ 379,541	\$ 5,691	\$ 5,965
Marshall Islands Social Security Administration	-	23,633	-	7,056
Kwajalein Atoll Joint Utilities Resources, Inc.	-	-	13,762	-
Marshalls Energy Company, Inc.	-	-	1,723	-
Marshall Islands Shipping Corporation	-	-	2,891	-
Other	<u>13,890</u>	<u>2,085</u>	<u>1,389</u>	-
	<u>\$ 382,543</u>	<u>\$ 405,259</u>	<u>\$ 25,456</u>	<u>\$ 13,021</u>

During the years ended September 30, 2020 and 2019, EPA recognized on-behalf payments as contributions from RepMar, totaling \$352,872 and \$368,653, 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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(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, 2021, RepMar appropriated \$557,201 for the purpose of funding EPA's programs and activities.

(7) COVID-19 Pandemic

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. On October 28, 2020, one confirmed case was identified in the Marshall Islands. On November 17, 2020, an additional three cases were identified and which were isolated and contained. As of October 12, 2021, no community transmission has been identified. EPA has determined that should community transmission occur in 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.

(8) Subsequent Event

On December 29, 2020, EPA settled an environmental case for damages caused by a grounded vessel in the Kwajalein Atoll lagoon on May 8, 2015. The defendant paid an amount of \$44,000 to EPA, which was received on January 11, 2021.

**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, 2020, 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 October 12, 2021.

### **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) as a basis for designing 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.

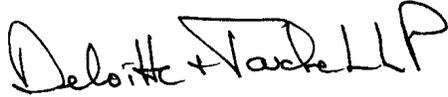
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

October 12, 2021

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Unresolved Prior Year Findings  
Year Ended September 30, 2020

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