

*Financial Statements, Required Supplementary
Information, and Report on Internal Control and
Compliance*

**Republic of the Marshall Islands
National Environmental Protection Authority Fund**
(A Component Unit of the Republic of the Marshall Islands)

*Year ended September 30, 2021
with Report of Independent Auditors*



Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Financial Statements, Required Supplementary Information, and
Report on Internal Control and Compliance

Year ended September 30, 2021

Table of Contents

Report of Independent Auditors.....	1
Management’s Discussion and Analysis	3
Audited Basic Financial Statements	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to Financial Statements.....	12
Report on Internal Control and Compliance	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Schedule of Findings and Responses	23

Report of Independent Auditors

Board of Directors

Republic of the Marshall Islands National Environmental Protection Authority Fund

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities 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, 2021, 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.

Auditor's 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, 2021, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 8 be presented to supplement the financial statements. Such information is the responsibility of management and, 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 December 13, 2024, 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.

Ernst + Young LLP

December 13, 2024

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis
Year ended September 30, 2021

This section of the Environmental Protection Authority (EPA or the Authority) annual financial report presents our discussion and analysis of EPA's financial performance during the fiscal year that ended on September 30, 2021. 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 citizenry 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
- 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].

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

EPA PURPOSE AND MANDATE, CONTINUED

- *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, to improve the delivery of services nationally and within communities.

EPA strives to be innovative in strengthening its capacity to provide more effective leadership. Effective management systems and principles are 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 2021 by \$43,045 down from \$650,794 in 2020, to \$607,749 in 2021, due to operating expenses exceeding operating revenues. Operating revenues increased by \$81,044 compared to 2020 while operating expenses increased by \$220,600 compared to 2020.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

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, 2021, 2020 and 2019 is presented below:

Summary Statements of Net Position
As of September 30

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Assets:					
Current and other assets	\$ 715,427	\$ 618,132	\$ 97,295	15.7%	\$ 485,479
Capital assets	<u>55,963</u>	<u>89,196</u>	<u>\$ (33,233)</u>	(37.3)%	<u>124,181</u>
Total assets	<u>771,390</u>	<u>707,328</u>	<u>64,062</u>	9.1%	<u>609,660</u>
Liabilities:					
Current and other liabilities	<u>163,641</u>	<u>56,534</u>	<u>107,107</u>	189.5%	<u>55,377</u>
Net position:					
Net investment in capital assets	55,963	89,196	(33,233)	(37.3)%	124,181
Restricted	-	233,369	(233,369)	(100.0)%	123,523
Unrestricted	<u>551,786</u>	<u>328,229</u>	<u>223,557</u>	68.1%	<u>306,579</u>
Total net position	<u>\$ 607,749</u>	<u>\$ 650,794</u>	<u>\$ (43,045)</u>	(6.6)%	<u>\$ 554,283</u>

As indicated above, total net position decreased by \$43,045, from \$650,794 in 2020 to \$607,749 in 2021. This is the result of an increase in total assets of \$64,062 from \$707,328 in 2020 to \$771,390 in 2021 offset by an increase in total liabilities of \$107,107 from \$56,534 in 2020 to \$163,641 in 2021. The increase in total assets was primarily due to an increase in cash balances of \$100,813 from \$588,004 in 2020 to \$688,817 in 2021 and a decrease in capital assets of \$33,233 from \$89,196 in 2020 to \$55,963 in 2021. The increase in total liabilities was primarily due to an increase in unearned revenue of \$88,566 from \$31,381 in 2020 to \$119,947 in 2021.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF EPA, CONTINUED

A Summary of EPA's Statements of Revenues, Expenses and Changes in Net Position for the years ended September 30, 2021, 2020 and 2019 is presented below:

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

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Operating:					
Operating revenues	\$ 914,199	\$ 833,155	\$ 81,044	9.7%	\$ 734,139
Operating expenses	957,244	736,644	220,600	29.9%	887,724
Operating income (loss)	(43,045)	96,511	(139,556)	(144.6)%	(153,585)
Nonoperating:					
Nonoperating revenues	-	-	-	0.0%	3,000
Change in net position	<u>\$ (43,045)</u>	<u>\$ 96,511</u>	<u>\$ (139,556)</u>	<u>(144.6)%</u>	<u>\$ (150,585)</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 \$81,044, from \$833,155 in 2020, to \$914,199 in 2021. At the same time, total operating expenses increased by \$220,600, from \$736,644 in 2020, to \$957,244 in 2021. The increase in operating revenues is primarily due to the increase in grants and contributions, from \$184,036 in 2020, to \$269,844 in 2021, and the increase in Nitijela appropriations, from \$352,872 in 2020, to \$435,206 in 2021, offset by a decrease in fines from \$139,650 in 2020, to \$55,100 in 2021. The increase in operating expenses between 2020 and 2021 is primarily due to the \$120,105 increase in travel, \$119,250 increase in rentals, and reduction of contractual services by \$11,103. Below is the summary of the major components of operating revenues in 2021 compared to 2020 and 2019:

Summary of Revenues by Component
Years Ended September 30

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Revenues:					
Nitijela appropriations	\$ 435,206	\$ 352,872	\$ 82,334	23%	\$ 368,653
Grants and contributions	269,844	184,036	85,808	47%	221,781
Fees and charges	158,405	147,594	10,811	7%	142,097
Fines	55,100	139,650	(84,550)	-61%	13,850
Others	16,628	9,003	7,625	85%	-
Uncollectible accounts	(20,984)	-	(20,984)	-	(12,242)
	<u>\$ 914,199</u>	<u>\$ 833,155</u>	<u>\$ 81,044</u>	<u>9.7%</u>	<u>\$ 734,139</u>

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF EPA, CONTINUED

Below is a summary of the major components of operating expenses in 2021 compared to 2020 and 2019:

Summary of Expenses by Component
Years Ended September 30

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Expenses:					
Salaries, wages and benefit	\$ 507,013	\$ 526,147	\$ (19,134)	-4%	\$ 493,579
Travel	128,690	8,585	120,105	1399%	100,358
Contractual services	42,703	31,600	11,103	35%	64,901
Depreciation	40,920	46,146	(5,226)	-11%	48,905
Supplies and materials	38,584	41,180	(2,596)	-6%	42,173
Subsidies	-	-	-	0%	25,000
Rental	129,549	10,299	119,250	1158%	7,815
Repairs and Maintenances	11,883	16,761	(4,878)	-29%	12,661
Miscellaneous	57,902	55,926	1,976	4%	92,332
	<u>\$ 957,244</u>	<u>\$ 736,644</u>	<u>\$ 220,600</u>	30%	<u>\$ 887,724</u>

Management's Discussion and Analysis for the year ended September 30, 2020 is set forth in the report on the audit of EPA's financial statements dated October 12, 2021. That Discussion and Analysis explains the major factors impacting the 2020 financial statements.

CAPITAL ASSETS AND DEBT

Net capital assets decreased by \$33,233, from \$89,196 in 2020, to \$55,963 in 2021, as a result of current year acquisitions of vehicles and office furniture and equipment of \$7,687 less current year depreciation expense of \$40,920. A summary of EPA's capital assets is presented below:

Summary of Capital Assets
As of September 30

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Motor vehicles	\$ 91,670	\$ 91,670	\$ -	0.0%	\$ 90,445
Office furniture & equipment	204,333	196,646	7,687	3.9%	186,710
Boat	63,744	63,744	-	0.0%	63,744
	359,747	352,060	7,687	2.2%	340,899
Accumulated depreciation	(303,784)	(262,864)	(40,920)	15.6%	(216,718)
	<u>\$ 55,963</u>	<u>\$ 89,196</u>	<u>\$ (33,233)</u>	(37.3)%	<u>\$ 124,181</u>

Additional information on EPA's capital assets is disclosed within note 3 to the accompanying financial statements. EPA currently does not record any long-term debt at September 30, 2021 nor recognized any changes in such in 2021 and 2020.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis, continued

ECONOMIC FACTORS

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.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Statement of Net Position

September 30, 2021

ASSETS

Current assets:	
Cash	\$ 688,817
Receivables:	
Trade	114,865
Affiliates	26,385
Grant	7,329
Other	23,109
	<u>171,688</u>
Less allowance for doubtful accounts	(145,078)
Total receivables, net	<u>26,610</u>
Total current assets	715,427
Capital assets, net	<u>55,963</u>
	<u>\$ 771,390</u>

LIABILITIES AND NET POSITION

Liabilities:	
Accounts payable	\$ 29,070
Payable to affiliates	9,971
Other liabilities and accruals	4,653
Unearned revenue	119,947
Total liabilities	<u>163,641</u>
Contingency	
Net position:	
Net investment in capital assets	55,963
Unrestricted	<u>551,786</u>
Total net position	<u>607,749</u>
	<u>\$ 771,390</u>

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2021

Operating revenues:	
Nitijela appropriation	\$ 435,206
Grants and contributions	269,844
Fees and charges	158,405
Fines	55,100
Other	<u>16,628</u>
Total operating revenues	935,183
Provision for bad debts	(<u>20,984</u>)
Net operating revenues	<u>914,199</u>
Operating expenses:	
Salaries, wages and employee benefits	507,013
Rentals	129,549
Travel	128,690
Contractual services	42,703
Depreciation	40,920
Supplies and materials	38,584
Food stuffs	20,273
Communications	12,711
Repairs and maintenance	11,883
Fuel	8,031
Printing and reproduction	6,627
Sitting fees	3,600
Insurance	1,320
Utilities	1,205
Training	700
Freight	316
Advertisements	182
Miscellaneous	<u>2,937</u>
Total operating expenses	<u>957,244</u>
Change in net position	(<u>43,045</u>)
Net position at beginning of year	<u>650,794</u>
Net position at end of year	<u><u>\$ 607,749</u></u>

See accompanying notes.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Statement of Cash Flows

Year ended September 30, 2021

Cash flows from operating activities:	
Cash received from customers	\$ 212,667
Operating grants received	358,410
Cash payments to suppliers for goods and services	(380,241)
Cash payments to employees for services	(82,336)
Net cash provided by operating activities	<u>108,500</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(7,687)
Net change in cash	100,813
Cash at beginning of year	<u>588,004</u>
Cash at end of year	<u>\$ 688,817</u>
Reconciliation of change in net position to net cash provided by operating activities:	
Change in net position	\$ (43,045)
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Depreciation	40,920
Bad debts expense	20,984
Changes in assets and liabilities:	
Receivables:	
Trade	(9,291)
Affiliates	(5,769)
Other	(2,406)
Accounts payable	29,070
Payable to affiliates	(10,557)
Unearned revenue	88,566
Other liabilities and accruals	<u>28</u>
Net cash provided by operating activities	<u>\$ 108,500</u>
Noncash investing, capital and financing activities:	
During the year ended September 30, 2021 , EPA recorded on-behalf payments of \$435,206 made by RepMar relating to salaries, wages, benefits of employees and other operating expenses.	

See accompanying notes.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements

Year ended September 30, 2021

1. Organization

The Republic of the Marshall Islands 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. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

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.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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: 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. EPA has no restricted net position as of September 30, 2021.
- 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.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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 cash flows, cash is defined as cash on hand and cash held in demand deposits. As of September 30, 2021, the carrying amount of cash was \$688,817 and the corresponding bank balance was \$691,625. Of the bank balance amount, \$670,359, was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$21,266 was maintained in a financial institution not subject to depository insurance.

As of September 30, 2021, 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 income. 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:

	<u>Estimated Useful Lives</u>
Boat	5 years
Motor vehicles	3 years
Office furniture and equipment	5 years

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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.

Recently Adopted Accounting Pronouncements

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed 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, EPA has elected to postpone implementation of these statements.

During the year ended September 30, 2021, EPA implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves 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.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending September 30, 2022.

The implementation of these statements did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

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 the 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 the fiscal year ending September 30, 2022.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, 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 the 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 are effective for the fiscal year ending 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 the fiscal year ending September 30, 2023.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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 the fiscal year ending September 30, 2023.

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for the 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.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

3. Capital Assets

Capital asset activity for the year ended September 30, 2021 is as follows:

	October <u>1, 2020</u>	<u>Additions</u>	Transfers and <u>Disposals</u>	September <u>30, 2021</u>
Depreciable capital assets:				
Boat	\$ 63,744	\$ ---	\$ ---	\$ 63,744
Motor vehicles	91,670	---	---	91,670
Office furniture and fixtures	<u>196,646</u>	<u>7,687</u>	<u>---</u>	<u>204,333</u>
	352,060	7,687	---	359,747
Less accumulated depreciation	(<u>262,864</u>)	(<u>40,920</u>)	<u>---</u>	(<u>303,784</u>)
	<u>\$ 89,196</u>	<u>\$ (33,233)</u>	<u>\$ ---</u>	<u>\$ 55,963</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 year ended September 30, 2021, EPA recognized on-behalf payments as contributions from RepMar, totaling \$435,206 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.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

4. Related Party Transactions, continued

A summary of related party balances and transactions as of and for the year ended September 30, 2021 is as follows:

	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$435,206	\$ 548	\$ 1,459	\$6,559
Marshall Islands Social Security Administration	---	17,372	---	3,412
National Telecommunications Authority	10,000	12,711	---	---
Kwajalein Atoll Joint Utilities Resources, Inc.	10,000	---	8,762	---
Marshalls Energy Company, Inc.	9,159	---	3,369	---
Air Marshall Islands	---	22,967	---	---
Marshall Islands Marine Resources Authority	300	---	250	---
Ministry of Works	10,000	---	5,000	---
Marshall Islands Shipping Corporation	2,156	2,156	4,857	---
Other	250	---	2,688	---
	<u>\$477,071</u>	<u>\$55,754</u>	<u>\$26,385</u>	<u>\$9,971</u>

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 years ending September 30, 2022 through 2024, RepMar appropriated \$546,707, \$564,407 and \$564,407, respectively, for the purpose of funding EPA's programs and activities.

Report of Independent Auditors 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, 2021, 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 December 13, 2024.

Report on 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2021-001 that we consider to be material weaknesses.

Report on 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*.

EPA's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on EPA's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. EPA's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Ernst + Young LLP

December 13, 2024

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses

Year ended September 30, 2021

Finding No. 2021-001

Revenue Recognition

Criteria: GASB Statement 33 requires that revenue from nonexchange transactions be recognized only when all eligibility requirements are met.

Condition: EPA did not recognize grant revenue in accordance with GASB Statement 33 as follows:

1. During the year ended September 30, 2021, revenues of \$358,410 were recorded and recognized as grant revenue in the fiscal year they were received, despite eligibility requirements not being met. An overstatement in grant revenues of \$88,566 resulted. An audit adjustment was proposed to correct this misstatement.
2. As of September 30, 2021, EPA recorded deferred revenues in the amount of \$31,381 that was not supported by an underlying account balance reconciliation. Accordingly, we were unable to ascertain the veracity of the recorded balance and whether eligibility requirements have been met.

Cause: Insufficient review of revenue recognition policies and eligibility criteria under GASB 33.

Effect: The financial statements misstated grant revenue leading to a potential misrepresentation of financial position and noncompliance with accounting standards.

Recommendation: EPA should enhance its financial reporting controls by: (1) providing additional training to staff on GASB 33 requirements; (2) implementing a detailed review process for eligibility criteria; and (3) establishing regular audits of revenue recognition practices to ensure compliance.

Republic of the Marshall Islands
National Environmental Protection Authority Fund
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses, continued

Finding No. 2021-001, continued

Auditee Response and Corrective Action Plan:

1. This is remaining balance between 3 ongoing multi-year projects; ACWA (7 years) (Water Scarcity 2 multiple phases), ODS (multi-year in phases), 88,566 in the grant revenue. Because these are considered active ongoing projects, the practice has been to leave them as carryover revenue as we prepare quarterly Profit and Loss financial reports. Management has noted the recommendation by the auditor to provide additional training to staff to enhance its financial reporting by establishing regular internal monitoring of grants and revenues to ensure compliance in this instance by ensuring that any remaining balance in grant revenue, at the end of each fiscal year, is re-classified in the system as ‘deferred revenue’.

Action by Management: This misstatement has been adjusted to reflect such as deferred revenue. Additionally, management will seek out opportunities for on-the-job training opportunities for local staff to comply with overall GASB standards.

2. This fund is leftover remaining balance at the closure of project. Management has noted the recommendation by auditor to re-classify as general revenue with closure of project.

Action by Management: Unrestricted remaining balance at the closure of a project will be credited to special revenue with the Board’s endorsement.