

NATIONAL ENVIRONMENTAL
PROTECTION AUTHORITY FUND

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2001

INDEPENDENT AUDITORS' REPORT

Board of Directors
National Environmental Protection Authority Fund:

We were engaged to audit the accompanying combined balance sheet of the National Environmental Protection Authority Fund (EPA), a component unit of the Republic of the Marshall Islands, as of September 30, 2001, and the related statement of revenues, expenditures and changes in fund balance for the year then ended. These financial statements are the responsibility of EPA's management.

Because of inadequacies in EPA's accounting records and internal control over financial reporting, we were unable to form an opinion regarding assets, liabilities, revenues and expenditures as of and for the year ended September 30, 2001. Furthermore, in our judgment, these accounts materially affect the results of operations for the year ended September 30, 2001.

We were unable to obtain minutes of EPA Board of Directors' meetings held from October 1, 2000 through October 7, 2002.

As discussed in notes 1 and 4, the financial statements of EPA relate solely to those accounting records maintained by EPA and do not incorporate any accounts related to its operations that may be accounted for by RepMar's Treasury or any of RepMar's other branches, departmental units or component units.

Because of the matters discussed in the second and third paragraphs above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2002, on our consideration of EPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an engagement to audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our engagement.



October 7, 2002

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Combined Balance Sheet - All Fund Types and Account Groups
 September 30, 2001
 (With comparative totals as of September 30, 2000)

	Governmental	Account	Totals	
	Fund Type	Group	(Memorandum Only)	
<u>ASSETS</u>	Special	General	2001	2000
	Revenue	Fixed Assets		
Cash	\$ 91,859	\$ -	\$ 91,859	\$ 24,813
Fixed assets, net (note 3)	<u>-</u>	<u>880</u>	<u>880</u>	<u>1,138</u>
	<u>\$ 91,859</u>	<u>\$ 880</u>	<u>\$ 92,739</u>	<u>\$ 25,951</u>
 <u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Accounts payable	\$ 818	\$ -	\$ 818	\$ 57
Other liabilities and accruals	<u>3,415</u>	<u>-</u>	<u>3,415</u>	<u>1,105</u>
Total liabilities	<u>4,233</u>	<u>-</u>	<u>4,233</u>	<u>1,162</u>
Fund equity:				
Investment in general fixed assets (note 3)	-	880	880	1,138
Fund balance	<u>87,626</u>	<u>-</u>	<u>87,626</u>	<u>23,651</u>
Total fund equity	<u>87,626</u>	<u>880</u>	<u>88,506</u>	<u>24,789</u>
Contingency (note 6)	<u>\$ 91,859</u>	<u>\$ 880</u>	<u>\$ 92,739</u>	<u>\$ 25,951</u>

See accompanying notes to financial statements.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Statement of Revenues, Expenditures and Changes in
Fund Balance - All Governmental Fund Types
Year Ended September 30, 2001
(With comparative totals for the year ended September 30, 2000)

	<u>2001</u>	<u>2000</u>
Revenues:		
Grants	\$ 165,448	\$ 57,455
Fees	12,885	6,990
Fines	8,550	-
Interest	237	328
Other	<u>4,223</u>	<u>4,774</u>
Total revenues	<u>191,343</u>	<u>69,547</u>
Expenditures:		
Conferences and seminars	56,787	-
Travel	25,102	15,495
Salaries and wages	23,265	4,466
Supplies and materials	10,437	10,814
Repairs and maintenance	2,036	7,854
Rentals	1,826	7,243
Communications	1,402	7,299
Contractual services	576	3,655
Utilities	60	-
Capital outlay	-	5,054
Miscellaneous	<u>5,877</u>	<u>12,391</u>
Total expenditures	<u>127,368</u>	<u>74,271</u>
Excess (deficiency) of revenues over (under) expenditures	63,975	(4,724)
Fund balance at beginning of year	<u>23,651</u>	<u>28,375</u>
Fund balance at end of year	<u>\$ 87,626</u>	<u>\$ 23,651</u>

See accompanying notes to financial statements.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2001

(1) Organization

The National Environmental Protection Authority Fund (EPA), a component unit of the Republic of the Marshall Islands (RepMar), was established by the National Environmental Protection Authority Act of 1984 (Public Law 1984-31, the Act). EPA began operations as a statutory corporation on December 19, 1984, in accordance with the Act. The objectives of EPA are to preserve and improve the quality of the environment of the Republic of the Marshall Islands.

The operations of EPA were accounted for as a separate fund within RepMar's Ministry of Finance. In April 1997, EPA established a separate bank account outside of RepMar's Treasury for the purpose of receiving and disbursing funds in accordance with Public Law 1984-31. Accordingly, the accompanying financial statements relate solely to those accounting records maintained by EPA and do not incorporate any accounts related to EPA's operations that may be accounted for by RepMar's Treasury or any of RepMar's other branches, departmental units or component units.

EPA is governed by a Chairman and four other members, all of whom are appointed by the President of RepMar.

EPA's financial statements are incorporated into the general purpose financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The financial statements of EPA have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. EPA's financial statements are incorporated into the general purpose financial statements of RepMar as a component unit. The more significant of EPA's accounting policies are described below.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting

EPA uses a fund and an account group to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain EPA functions or activities.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies. Continued

Measurement Focus and Basis of Accounting. Continued

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the fund because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

In the accompanying financial statements, EPA's fund is classified as a governmental fund type.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included in the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Budgetary Information

An annual appropriated budget has not been adopted by the Nitijela (the RepMar Legislature) for the operations of EPA for the year ended September 30, 2001. Accordingly, a budget to actual presentation is not required or presented.

Cash

For the purpose of the balance sheet, cash is defined as cash held in demand accounts. As of September 30, 2001, the carrying amount of cash was \$91,859 and the corresponding bank balance was \$91,232, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2001, bank deposits were fully FDIC insured.

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

Fixed Assets

The accounting and reporting treatment applied to fixed assets associated with a fund are determined by its measurement focus. Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in governmental funds, and are stated at cost or estimated fair market value. Depreciation is charged as a reduction in the investment in general fixed assets and an increase in accumulated depreciation. Depreciation is calculated on the straight-line method based on the estimated useful lives of the respective assets.

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 revenue tax of 3% on revenues. EPA is specifically exempt from this tax.

Memorandum Only-Total Columns

Total columns on the financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position or results of operations in accordance with GAAP. Interfund eliminations have not been made in the aggregation of this data.

(3) Fixed Assets

Activity in the General Fixed Assets Account Group for the year ended September 30, 2001, was as follows:

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2001</u>
Office furniture and equipment	5 years	\$ <u>1,288</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,288</u>
		1,288	-	-	1,288
Less accumulated depreciation		<u>(150)</u>	<u>(258)</u>	<u>-</u>	<u>(408)</u>
		<u>\$ 1,138</u>	<u>\$ (258)</u>	<u>\$ -</u>	<u>\$ 880</u>

NATIONAL ENVIRONMENTAL PROTECTION AUTHORITY FUND

Notes to Financial Statements September 30, 2001

(4) Related Party Transactions

EPA was created by the Nitijela of RepMar under Public Law 1984-31 and is thus considered a component unit of RepMar. Accordingly, EPA is affiliated with all RepMar-owned and affiliated entities. Transactions with RepMar-owned and affiliated entities are conducted at the same terms and conditions afforded to third parties.

During the year ended September 30, 2001, the separate fund maintained within RepMar's Treasury recorded an operating transfer in from RepMar's General Fund as a Nitijela appropriation of \$191,569 and expenditures of \$185,192, which pertain to operational activities of EPA in accordance with Public Law 1984-31 (see note 1).

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

(5) Risk Management

EPA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. EPA has elected to purchase commercial automobile insurance from independent third parties for the risks of loss to which it is exposed with respect to the use of motor vehicles. Settled claims have not exceeded this commercial coverage in any of the past three years. For other risks of loss to which it is exposed, EPA has elected not to purchase commercial insurance. Instead, EPA believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from EPA's risk management activities.

(6) Contingency

EPA does not maintain general liability insurance coverage on its operations. In the event of a loss, EPA may be self-insured to a material extent.